Farm Credit Canada Annual Report 2001-02

Forward.
Thinking.

Agriculture. It's all we do.

FCC *helps* CANADIAN FARMERS AND AGRIBUSINESS *grow*, DIVERSIFY AND *prosper*.

The agricultural industry is exciting, dynamic and ever-changing.

Each season brings about a new cycle of life. The cultivation of soil and nurturing of animals year after year is a delicate balance of harvesting today while planning for the future.

Our customers move through their business cycles. One generation mentors another, and each must deal with changing global realities of new markets, new science and new technology.

During the last year, FCC went through many cycles and achieved many milestones – a new mandate, new alliances, and new ways of doing business. It was a year of managing our destiny so we can help agriculture grow for the long term. It was a year of thinking about and moving forward to the future.

fcc : A symbol of our future

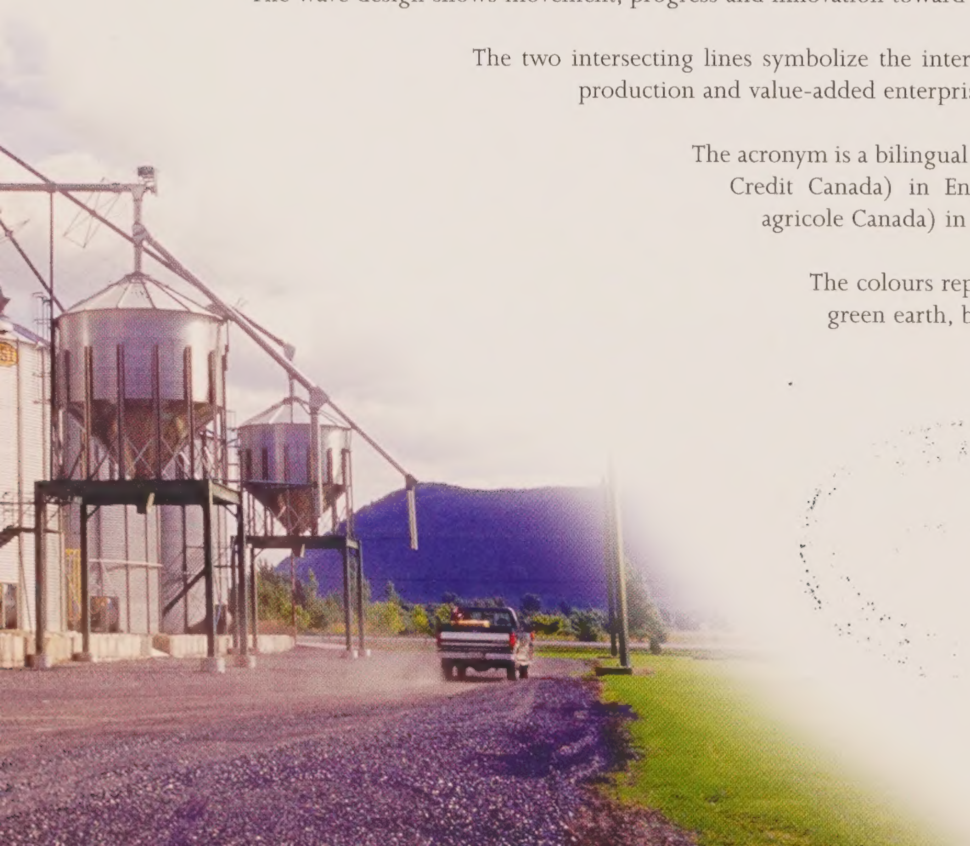
With the enactment of our new legislation, we will offer a broader range of services to agriculture across Canada. FCC's new logo reflects that change and our future.

The wave design shows movement, progress and innovation toward our customers.

The two intersecting lines symbolize the interdependence between primary production and value-added enterprises.

The acronym is a bilingual blend representing FCC (Farm Credit Canada) in English and FAC (Financement agricole Canada) in French.

The colours represent the natural elements of green earth, blue sky and water.



As Canada's leader in agricultural financing, FCC helps farmers and agribusiness operators grow, diversify and prosper. Operating out of 100 offices located primarily in rural areas, the corporation's 900 employees are passionate about the business of agriculture. FCC's healthy portfolio of $7.7 billion and nine consecutive years of portfolio growth are a reflection of our customers' success.

Corporate values

At FCC, our corporate values guide our conduct with colleagues and customers:

FOCUS ON THE CUSTOMER

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

ACT WITH INTEGRITY

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

WORKING TOGETHER

We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

GIVE BACK TO THE COMMUNITY

We believe in giving back to our communities – the communities where our customers and employees live and work.

ACHIEVING EXCELLENCE

We are committed to one thing: the success of the agricultural industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees to achieve their potential.

Vision

Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Mission

To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

TABLE of CONTENTS

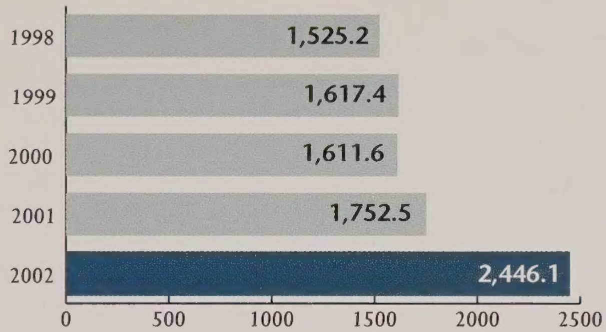
For the year ended March 31

Operational	2002	2001	2000	1999	1998
Loans receivable portfolio					
Number of loans	**75,888**	75,202	73,686	72,311	69,846
Amount ($ millions)	**7,715.8**	6,907.6	6,303.8	5,843.4	5,318.8
Net portfolio growth (%)	**11.7**	9.6	7.9	9.9	13.5
Percentage of loans receivable in good standing (%)	**96.5**	95.5	94.9	94.8	94.3
New lending					
Number of loans approved	**17,842**	13,289	14,201	14,880	15,488
Amount of loans approved ($ millions)	**2,446.1**	1,752.5	1,611.6	1,617.4	1,525.2
Average size of loans approved ($)	**137,097**	131,875	113,500	108,700	98,500
Real property held at year end					
Number of properties	**115**	372	924	1,516	1,787
Number of acres	**28,855**	120,924	360,284	604,054	725,703
Value ($ millions)	**10.1**	25.1	64.9	103.4	123.5

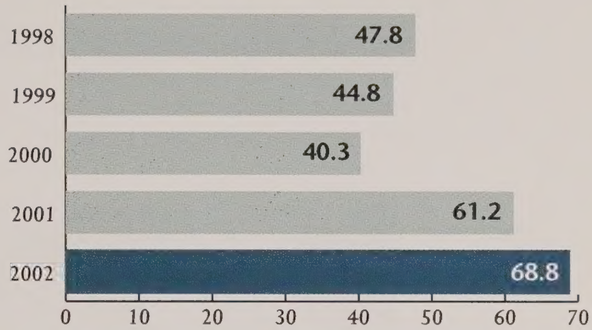
Financial	2002	2001	2000	1999	1998
Balance sheet ($ millions)					
Total assets	**7,884.7**	7,179.3	6,570.7	6,125.1	5,706.2
Total liabilities	**7,138.7**	6,346.7	5,943.5	5,533.2	5,156.9
Equity	**745.9**	832.6	627.2	591.9	549.3
Income statement ($ millions)					
Net interest income	**201.2**	164.5	154.4	146.3	134.1
Provision for credit losses	**45.5**	40.2	52.7	33.2	18.7
Net lease and real estate income	**5.4**	23.2	23.0	14.7	13.0
Other income	**9.3**	8.2	6.4	7.1	8.8
Administration expenses	**101.6**	94.5	90.8	90.1	89.4
Income before income taxes	**68.8**	61.2	40.3	44.8	47.8
Current income taxes	**1.9**	2.2	1.9	2.2	6.2
Future income taxes	**25.6**	27.4	–	–	–
Net income for the year	**41.3**	31.6	38.4	42.6	41.6

AS A SOVEREIGN BORROWER, FCC MAINTAINS AN AAA CREDIT RATING.

Loans Approved ($ millions)



Net Income* ($ millions)



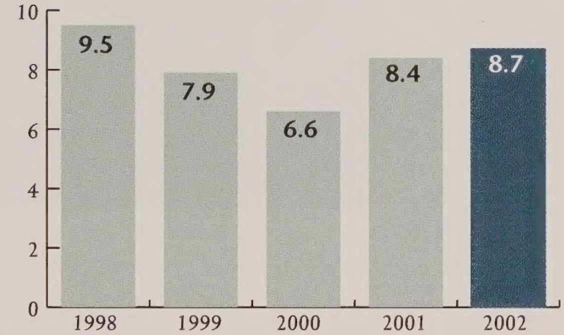
Operational highlights

- Approved $2.4 billion in new loans
- Achieved ninth consecutive year of portfolio growth at 11.7 per cent in 2001-02
- Initiated significant new agreements with Alliance partners
- Continued development of Internet services
- Improved health of loan portfolio

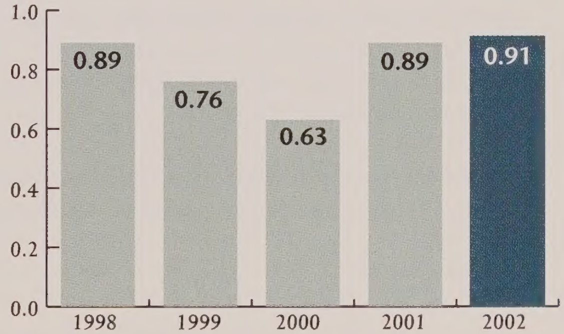
Financial highlights

- Continued strong net income generated increased capacity for lending
- Higher return on equity mainly due to increased net interest income
- Allowance for credit loss increased by $28 million, reflecting the risks associated with the larger portfolio
- Efficiency ratio improved to 48.4 per cent from 55.0 per cent in 2001-02

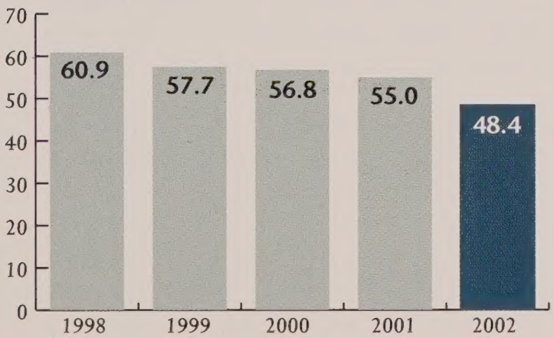
Return on Equity* (%)



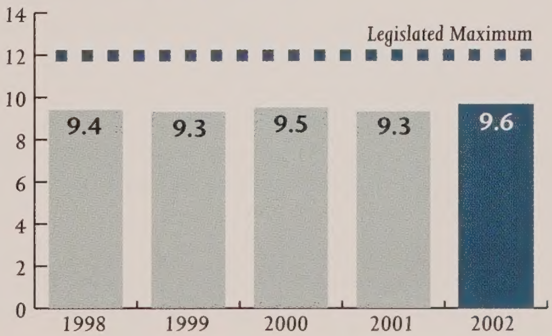
Return on Assets* (%)



Efficiency Ratio (%)



Debt-to-equity (X:1)**



* before income taxes

** equity restated in 2001 for comparative purposes

"WE WORK WITH *customers,* AT EVERY STAGE OF THEIR *business cycle.*"

Listening to customers. Anticipating needs.

From the food on our tables to new and innovative energy sources, agriculture touches every aspect of our lives and economy. Global market demands and changing consumer expectations are challenging producers and agribusiness operators to innovate and manage more complex agricultural operations while still maintaining exceptional quality and food safety standards.

Agriculture is an increasingly dynamic, complex and ever-evolving industry. As we examine the trends impacting agriculture, we are challenged to continue developing financial solutions that will meet future needs. By consulting with the agricultural industry and listening to our customers, we strive to be forward thinking. We work to anticipate the industry's needs and help our customers be proactive.

At FCC, we base our success on the success of our customers. This past year demonstrated the vast differences in Canada's agricultural industry. Some producers grappled with the effects of drought and market downturns, while others, particularly those in the hog and dairy sectors, benefited from strong markets. In good times and bad, and across the diverse agricultural sectors, FCC account managers help customers meet challenges and offer innovative financial solutions to take advantage of opportunities. Our results demonstrate that we are on the right track. In 2001-02, our loan portfolio grew to a record level of **$7.7 billion**. Our return on equity also increased to **8.7 per cent**. This is the ninth consecutive year of growth for FCC, which means that we are self-sustaining and in a good position to continue serving the agricultural industry.

Products and services to meet changing needs

We believe in working with our customers over the long term at every stage of their business cycle – from start-up to retirement and succession. As our customers' needs change, we adapt the products and services we offer accordingly.

An example of this is our new Flexi-Farm product. Developed for primary producers, this product puts farmers in the driver's seat regarding payment schedules so that they can manage challenges and take advantage of opportunities. In 2001-02, FCC also launched several products geared to the unique needs of agribusiness, such as the Performer Loan that bases payments on the achievement of business milestones.

Evolving with the industry

To continue to meet the evolving needs of Canadian agriculture, FCC successfully received an expanded mandate in 2001. The new *Farm Credit Canada Act* opens the door for FCC to develop a whole new range of products, services and delivery channels tailored to address the changing agricultural marketplace.

Primary producers also require access to effective management tools. Complementary services, including business and succession planning, will be developed in consultation with the industry and our customers.

It has been apparent for some time that access to venture capital for agriculturally focused companies is a pressing need. Our new mandate enables us to begin to address this issue. Our preliminary goal is to start small and serve as a catalyst – to encourage others in the financial services industry to invest actively in the agriculture industry. We wish to reach out to partners and the industry to identify venture capital opportunities that will benefit both Canadian agriculture and investors.

Success through partnership

The change to our legislation was achieved with significant consultation with customers, partners and stakeholders. Key partners, such as the Canadian Federation of Agriculture, shared our view that FCC's focus must remain on the primary producer. Customers and stakeholders also have told us that the growth of the value-added sector is key to the future success of the industry. In 2001, Canada exported $26.5 billion worth of agri-food products, a 14 per cent increase over the previous year. Our extended powers will allow FCC to serve the full spectrum of agriculture from inputs through to processing. At the same time, we continue to develop and nurture new partnerships that leverage our financial expertise with the complementary expertise and service networks of others. The end result is a net benefit to our customers and the industry.

FCC's 100 offices are located in rural and small centres – where our customers farm and do business. Our employees live and work in these same communities. Many of our employees have rural and farm backgrounds, and they have a vested interest in the success of agriculture.

We continue to nurture and develop our people's specialized expertise. We accomplish this through knowledge management, leadership training and professional development. This investment in our employees offers our customers special value in their relationship with FCC. Customers tell us we "get" agriculture and their needs. The reason we do is attributable to the men and women who work at FCC. They share a passion for the industry's success with our customers and stakeholders.

Putting our "thinking" to work for our customers

Recognizing that our employees' specialized agricultural expertise and knowledge is what differentiates FCC in the marketplace, we launched a new knowledge management initiative in 2001-02. FCC is striving to capture essential industry knowledge to share across Canada. Ultimately, this knowledge benefits our customers, as our account managers translate national and international industry information into actionable advice tailored to the needs of each customer's individual operation.

While it has been a year of success and innovation at FCC, we did not lose sight of the fundamentals. We believe in a balanced scorecard approach to business. We pay equal attention to human resources, customer loyalty, quality improvement and financial success. Focus on all four of these elements contributes to our customers' success and, in turn, results in FCC's continued ability to serve agriculture.

With a clear new mandate and continued dedication to the industry, FCC will continue to raise the bar and extend our reach so that customers can work with us in person, by phone, through the Internet and via our many partners.

By constantly challenging ourselves to be forward thinking – meeting our customers' needs today, while constantly thinking about their future requirements – FCC fulfills its mandate to enhance rural Canada and ensure the long-term sustainability of Canadian agriculture.

John J. Ryan

"FCC SEEKS *partnerships* TO HELP RURAL CANADA *grow*."

Continued focus on producers

The boundaries of Canadian agriculture are expanding. Freer trade, globalization, technology and increasingly unpredictable weather are redefining the industry. Everyone involved in the agriculture value chain – from producer to retailer – requires increased access to financial and business solutions.

As well, more capital is needed to allow agriculture to reach its potential and compete globally. Perhaps even more importantly, developing management skills and adopting sustainable practices are critical inputs to the success of any operation, large or small, in all market conditions.

In the midst of this change, what is the role of the Canada's largest agricultural term lender? Our mission is clear: to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

In 2001-02, the new *Farm Credit Canada Act* solidified FCC's long-term commitment to primary producers. It has set the stage for FCC to develop partnerships and expanded services to help producers and agribusiness grow and prosper.

There is more to our business than lending money

We believe in building community strength. FCC continues to demonstrate leadership through involvement with the Canadian Centre for Philanthropy's Imagine Program. As a member, FCC donates one per cent of annual net income to charitable and not-for-profit community organizations. Our community investment activities focus on farm safety, hunger and education. FCC continued its long-standing partnership with the Canadian Federation of Agriculture and proudly served as the exclusive corporate sponsor of the 2001 Canadian Agricultural Safety Week Campaign.

FCC is self-sustaining

The Board of Directors firmly believes in strong corporate governance and is responsible for overseeing FCC's management and business in the best interests of the corporation and the long-term interests of the Government of Canada. The FCC Board comprises a rare blend of skills and experience derived from extensive backgrounds in agriculture, management, finance and public policy. Many of us continue to work in the agricultural industry and have a vested interest in its success.

I would like to take this opportunity to acknowledge the contributions of Edward W. Clark, who stepped down as a Director in 2001. His expertise in agriculture and contribution as Chair of the Corporate Governance Committee has left its mark. I would like to welcome Robert Colpitts as the newest Director of the FCC Board. His background in agricultural public policy will serve as an excellent complement to the Board and the corporation.

Over the next few years, customers and the industry will continue to challenge FCC to identify new growth opportunities. We will work with our partners, customers and stakeholders to meet and exceed these expectations and to contribute to the long-term success of the industry and the prosperity of our rural communities.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis

Rosemary Davis

"FCC IS AN *integral* PART OF THIS VISION."

Canada world leader in agriculture

Canada's agriculture and agri-food industry is a key contributor to the high quality of life enjoyed across the country. Vital to our economic success, this industry produces roughly eight per cent of our gross domestic product, accounting for one in seven jobs nationwide.

The challenges in agriculture continue to provide exciting opportunities for those in the industry. That's why the Government of Canada, in concert with the provincial and territorial governments, is working with the industry to build a stable agricultural policy framework for the future. Our objective is to position Canada as a world leader in food safety, innovation and environmentally responsible production.

I am pleased to say that Farm Credit Canada is an integral part of this vision. In 2001-02, FCC offered new products and services that addressed the industry's unique needs. FCC continues to work with customers and partners to understand and develop the tools needed for the long-term success of the industry.

In 2001, the Government of Canada was very pleased to support the new *Farm Credit Canada Act*. This new legislation underlines FCC's commitment to primary producers. It also allows FCC to further promote investment in agribusiness and offer products and services that will complement and add value to the agricultural industry, ultimately leading to the enhancement of rural Canada.

I know that Farm Credit Canada will continue to provide financial expertise and leadership as the industry, government and financial institutions work in partnership to establish Canada's unique brand of agricultural innovation, safety and quality around the world.

Lyle Vanclief

Lyle Vanclief

Changing landscape of Canadian agriculture

New technologies, crops and production practices, combined with increased international competition, are driving tremendous change in Canadian agriculture. Meanwhile, information technology and greater domestic and international competition are transforming the financial services industry.

In order to meet and anticipate changing needs, FCC closely monitors trends in both industries. We use this market intelligence, along with customer feedback, to develop innovative strategies, products and services. The following summarizes key trends that have shaped FCC's corporate plan and will influence our future direction.

TO ANTICIPATE CHANGING *needs*, FCC CLOSELY *monitors* INDUSTRY TRENDS.

Financing a Canadian economic powerhouse

FCC supports the growth and competitiveness of an industry vital to Canada's economy and the strength of rural communities. The proof of agriculture's importance is in the numbers:

- Agriculture contributed $36 billion in gross domestic product (GDP) in 2000;
- Agri-food industry was 8.5% of Canadian GDP in 2000;
- In 2000, the agri-food industry employed two million people, accounting for 13 per cent of the Canadian labour force; and
- In 2001, agri-food exports reached a record $26.5 billion, an increase of 14 per cent from the previous year.

Source: Agriculture and Agri-Food Canada

INTEGRATING AGRICULTURAL PRODUCTION FROM SUPPLIER TO CONSUMER

The shift towards a more integrated and market-driven industry continues to shape Canadian agriculture. Producers and agribusiness are responding to an increasingly global marketplace by expanding their operations and exploring niche markets. They also are building partnerships along the agricultural value chain.

Partnerships are an efficient way to manage risk in volatile markets and extend individual marketing efforts. Livestock producers and processors have been particularly successful at this approach. These networks usually involve contract selling and buying at predetermined prices to reduce price risk.

For example, many FCC customers in the hog sector have entered integrated relationships with suppliers and processors to form "hog loops." Through such alliances, hog producers can realize economies of scale and security of markets not available to stand-alone operations.

Faced with a complex business environment, FCC and other financial services providers are challenged to constantly upgrade existing knowledge and offer more sophisticated services. Recognizing the increasing interconnectedness of the industry, FCC develops financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

Level of business sophistication increases

FCC understands that producers and agribusiness operators are running businesses just as complex as urban-based entrepreneurs. Farm business management expertise is an important factor contributing to long-term success. "FCC is developing a range of financial and business management services for agricultural operators across the country. We will fill gaps in existing services either directly or through partnerships wherever possible," says Janet Wightman, Executive Vice-President and Chief Operating Officer.

The continued growth of agribusiness

Producers and other rural entrepreneurs continue to increase margins by adding value to agricultural commodities. By doing so, they are creating economic growth and jobs in their rural communities, as well as new markets for producers close to home.

To become less dependent on fluctuating commodity prices in such sectors as grains and oilseeds, more producers are exploring new ways to add value to existing operations. Some have sought to meet specific needs in niche markets, such as organically produced foods, specialty crops and nutraceuticals. Others have added value by expanding into registered seed or grain cleaning.

A growing number of businesses are processing agricultural commodities to produce non-food products, such as cosmetics and personal care products, fiber-based materials and ethanol.

Many of these value-added initiatives require large injections of capital to get off the ground and achieve long-term success. FCC's expertise will play a crucial role in meeting the capital needs of agribusiness in the coming years. By supporting the growth of agribusiness, we are contributing to the success of primary producers.

The global marketplace

Canadian agri-food exports have been fueled by the rapid growth of the processing sector over the last few years. These exports grew by 14 per cent to $26.5 billion in 2001 from the previous year. The United States continues to be Canada's primary trade partner, accounting for 61 per cent of Canadian agri-food exports. Other major destinations were Japan (nine per cent), the European Union (five per cent), Mexico (three per cent) and China (three per cent).

Global trade issues continue to place pressure on Canadian producers to increase competitiveness. The current round of World Trade Organization negotiations, scheduled to be completed by 2005, is reviewing supply management systems and national trading organizations.

To keep pace with this evolution, FCC continuously updates its knowledge of international market trends. By consulting agricultural groups and working in partnership with customers, FCC advances its expertise to help Canadians successfully compete at the global level. At home, we continue to work with rural-based agri-food processing operations to help rural economies grow.

"FCC IS *developing* A RANGE OF FINANCIAL AND *business* MANAGEMENT SERVICES."

– *continued on page 11*

Mowats expand their dairy operation

Shane Mowat likes to explore, experiment and seize opportunities. However, he is not given to wild speculation. Any expansion is thoroughly researched and planned before being carried out.

With the help of his wife Donna and two employees, Shane owns and operates Jockvalley Farms, located in Ashton, Ontario. Established in 1983, Jockvalley Farms is a large, modern dairy and cash crop operation that includes a state-of-the-art barn, 180 cows, three robotic milkers and 1,500 acres of land. It hasn't always been this way.

"After I received my diploma in agriculture, we purchased the farm," Shane explains. "The buildings and machinery were old. To succeed, we relied on our marketing skills, contacts and knowledge."

Jockvalley Farms grew steadily, to the point where Shane and Donna felt it was time for a major expansion. They attended numerous farm shows and open houses, and gathered all the possible ideas and experience.

A year and a half ago, they came to FCC with a detailed business plan that included tripling the herd size, purchasing three robotic milkers and building a modern barn – designed to take advantage of gravity, geography and natural ventilation.

"The thing that impressed me most about Shane and Donna's business plan was that they had spent several years researching and preparing for this expansion," explains FCC Account Manager Jim Marr. "They had a very clear idea of why they wanted to expand it."

FCC Account Manager Jacques St-Arnaud also works with the Mowats. To him, sound financial management has always been an important part of Shane and Donna's success.

"Although this is a large project, no detail is overlooked," he says. "Expenses are closely monitored, and priority is given to whatever most affects the bottom line."

Shane is pleased with the results of the expansion so far. The operation is running almost at maximum production level. For him, the keys to growth are flexibility and knowledge.

"Every business is changing and agriculture is no different," says Shane. "We plan for the long term, but we also try to keep an open mind and remain flexible. It's amazing what's out there when you take the time to explore."

"THEY HAD A VERY CLEAR *idea* OF WHY THEY WANTED TO EXPAND *it*."

Shane and Donna Mowat with family.

– continued from page 9

FOOD SAFETY AND SUSTAINABILITY

Canada's food supply is widely respected internationally for its safety record and quality. However, recent world events have underscored the need to take preventive measures against the potential safety and environmental threats.

The agricultural industry is taking food safety very seriously. The agricultural devastation in Europe from Bovine Spongiform Encephalopathy and Foot and Mouth Disease is driving the industry towards an integrated approach to food safety. Quality control along the supply chain, as well as the ability to track food product contents from the producer to retailer, have become key concerns to both suppliers and retailers.

The terrorist events of the past year significantly increased the awareness of the threat of agro-terrorism. Companies are taking steps to increase the security of their business network and, in some cases, are realigning their supply chain. These actions can be costly and will likely be felt throughout the value chain.

On the environmental front, cases of contamination to community water supplies have drawn attention to the possible negative impact farming practices can have on the environment. The federal and provincial governments are strengthening regulations controlling environmental standards of farming operations. This particularly affects livestock operations and manure management practices. However, producers in all sectors are aware of the need for stringent environmental practices on their farms.

The drive towards total quality, identifying the source of food product contents, and environmental stewardship offers great potential benefits. Canada's strong international reputation will help producers and processors expand in international markets. For the financial services industry, quality assurance and sustainable practices significantly reduce lending risk.

THE ADOPTION OF NEW *technology* *plays* A CRITICAL ROLE.

FCC intends to act as a catalyst in the industry by encouraging support of producers and processors as they strive to make an already safe agri-food system even safer. Through increasing access to business management services, FCC will encourage long-term planning to help maintain quality and reduce environmental risk. The corporation offers the Enviro-Loan, a customized product that helps producers meet environmental standards for farming operations.

THE IMPACT OF SCIENCE AND TECHNOLOGY

As producers and agribusiness strive to meet growing consumer demands and achieve economies of scale, the adoption of new technology plays a critical role in financial success. Advances in science create opportunities for improved food safety and environmental stewardship, innovative products, and additional sources of revenue. From high-tech barns with state-of-the-art ventilation systems to computerized feeding and robotic milking systems, agriculture has become a sophisticated, knowledge-based industry.

As with most economic sectors, the integration of new technology is key to the continued development and competitiveness of Canadian agriculture. However, it is also a challenging and costly process for operators. FCC has introduced several financial products with flexible payment options to help producers adopt new technologies. Access to adequate capital will play a key role in helping Canada's agricultural industry continue as a technology leader.

– continued on page 13

Watsons run successful family business

When it comes to their farming operation, the Watsons have created a successful formula for mixing family with business. Doug and Connie Watson, along with their three sons, operate a large cash crop operation near Yellow Grass, Saskatchewan, about 100 kilometres south of Regina.

"Each son owns his own company and land and keeps his own books. At the same time, we channel equipment use and input purchases through the parent corporation," says Doug. "Everything is accounted for to ensure each family member is fairly compensated for their contribution. That way, we keep our business relationships fair and our family relationships harmonious."

Doug and Connie decided to enter farming in 1968. They bought their first quarter with a loan from FCC and used their off-farm income to make the first payments. When the time came for their three sons to choose careers, both parents encouraged them to work off the farm first and get an education before considering joining the family business.

Jason purchased his first half section in 1992 with the help of FCC. Justin bought land two years later, and the youngest son, Jeff, just bought his first quarter section last year. Each has an agriculture-related diploma or degree, and Justin and Jeff work for agricultural supply companies. "Together, they bring a lot of industry expertise to the table, which has benefited our business," Doug says.

The Watsons now farm close to 8,000 acres and have expanded into producing registered seed, which keeps them busy through the winter months. For the past several years, they have been in expansion mode and, with three sons bringing forward new business ideas, they expect this trend to continue.

When time comes for the parents to start scaling back for retirement, the Watsons intend to sit down as a family and work out a plan. Doug recently attended an AgriSuccess succession planning workshop in Weyburn that gave them some good tips on how to develop a long-term strategy.

"The more you plan, the more successful you are," Doug maintains. Based on strong market savvy and attention to day-to-day management, the Watsons intend to prove that the family farm continues to be a viable and profitable business concept.

"WE KEEP OUR *business* RELATIONSHIPS FAIR AND OUR *family* RELATIONSHIPS HARMONIOUS."

Doug Watson and his two sons, Jason (left) and Jeff.

– continued from page 11

EVOLUTION OF THE FINANCIAL SERVICES INDUSTRY

Change in the financial services sector is being driven by global competition, product innovation, demographics and technology. Competition will intensify as the full effects of Bill C-8, reforming Canada's financial services sector, are felt in the marketplace. An increase in the number of small businesses and self-employed individuals is increasing demand for more specialized financial products. Meanwhile, the baby-boom generation has adopted a savings-oriented financial focus, leading to the growth of a wealth management sector.

Technology is shaping consumer demand and business models. Financial institutions must now be able to provide their customers with access to information and services 24 hours a day, seven days a week – in person, by phone or through the Internet.

With a new regulatory framework and the expected economic recovery in North America, the financial services industry will likely see continued industry expansion. Increased focus on larger and international markets by many financial institutions could result in reduced access to their services in rural regions. This underlines the continued importance of FCC and other lenders in rural Canada in the years ahead.

FCC is committed to providing direct access to agricultural financing experts through 100 offices located in rural areas across the country. At the same time, the corporation is augmenting this face-to-face delivery channel with telephone and Internet services – to give rural customers greater access to services.

HELPING PRODUCERS PREPARE FOR THE FUTURE

As with all businesses, there are no absolutes in agriculture. No matter how carefully producers make long-term plans, they are still subject to climatic shifts and changing markets. FCC encourages producers to put long-term financial and business plans in place to reduce vulnerability to external forces.

A crucial issue facing many farm families in the next decade is the transfer of the farm to the next generation. More than $50 billion in farm assets is expected to change hands before the next decade. FCC has responded by forming AgriSuccess – a national partnership to educate farm families on succession planning and increase access to business planning services. We continue to offer AgriStart – a suite of loan products designed for new and developing farmers, as well as farm families who need an orderly transition between generations. Our new legislation positions us to offer business management services to help producers plan a smooth transition. FCC also will launch expanded AgriStart services in 2002-03 to help new entrants.

With an expanded mandate and focus on satisfying the long-term needs of customers, FCC will continue to help producers and agribusiness achieve success. As a result, we contribute to the growth of the agricultural industry and economic strength of rural Canada.

Richard runs growing calf operation

When he began raising veal calves in 1993, Marco Richard faced the double challenge of starting up an agricultural business in a little-known sector.

The 28-year-old now runs a 455-calf operation in Ste-Brigitte-des-Saults, Quebec. He bought his first farm at age 19, after completing his studies at the Institut de technologie agricole in St-Hyacinthe. He remembers the challenges he faced early on.

"When I started in 1993, I didn't have any cash," Marco recalls. "I didn't have much experience either, but having grown up on a veal-calf farm, I knew the sector well."

He made the necessary adjustments to the barn to fit his needs. Patience, careful management and planning did the rest. By 1997, Marco's business was well on its way and he felt ready to sell his first farm and start a new one, this time by purchasing a barn capable of holding 450 calves, an unheard-of capacity at the time.

The project was a bold one. Marco approached FCC with his business plan. The response was quick.

"The business plan was near perfect," says FCC Account Manager Fred Martineau. "The balance statement was up to date and the forecasts were accurate. Marco is an expert in the veal-calf sector, and he always strives to be the best operator and manager he can be."

The new operation turned out to be a huge success. Marco believes that passion, planning skills and people are key to getting a good start in agriculture.

"Passion is the first ingredient, but you have to remain objective and always look at the entire picture," he explains. "The second ingredient is sound business and financial planning. You have to be able to budget over the short and the long term. You also have to surround yourself with the right people and benefit from their experience. Getting involved in your federation and in local organizations, for example, allows you to learn and build a network of advisors."

"HE *always* STRIVES TO *be* THE *best* OPERATOR AND MANAGER HE *can* BE."

Marco Richard, Chantal Pitt and Fany Richard.

Green Prairie focuses on export markets

Building lasting relationships has been instrumental to the success of Green Prairie International, a timothy hay processing company based outside of Lethbridge, Alberta. The company exports 100 per cent of its compressed livestock feed – mostly to Japan and Korea. Since starting the business in 1986, CEO John Van Hierden has made inroads into Asian markets based on product quality and his company's reputation.

"We first started marketing through sales agents but soon learned that doing it ourselves worked better," says Edward Van Hierden, company president and John's brother. "Asian buyers want to know they can trust the people they are dealing with. It takes years to build a reputation."

Green Prairie's amazing growth demonstrates a long-term and personal approach to marketing pays off. While John started with a portable compressing unit, the company now has three plants and marketing alliances with other timothy processors. Production increased by 25 per cent last year and has now reached 70,000 metric tonnes. Timothy is a high-quality hay traditionally used as forage in many Asian markets such as Japan.

The company controls quality by purchasing high-grade hay from contracted producers and following strict quality-control procedures in the plants. In fact, in March 2002, Green Prairie sent six plant employees to Japan to meet with customers and obtain a first-hand understanding of the Japanese market. "The better our employees understand our market, the higher our product quality," Edward maintains.

To finance its most recent expansion, Green Prairie approached Business Development Bank of Canada (BDC) in winter 2001. BDC then contacted FCC's Lethbridge office to work together on a financial package flexible enough to meet the specialized needs of this agribusiness.

"THE BETTER OUR EMPLOYEES *understand* OUR MARKET, THE HIGHER OUR PRODUCT *quality*."

"BDC brought experience in financing manufacturing operations and FCC contributed agricultural expertise and customized lending products," says FCC's Lethbridge District Manager Clem Samson.

"Green Prairie has just touched the tip of the iceberg in this emerging niche market," Edward says. He encourages other rural entrepreneurs to tackle new market opportunities in international agriculture.

John Van Hierden, his brother Edward, FCC's Clem Samson and BDC's Garfield Benke.

Long-term strategies to meet lifetime needs

At FCC, we take a forward-thinking approach to strategic planning that anticipates customer needs. In 2001-02, FCC updated its five-year corporate strategy to reinforce our commitment to building lasting customer relationships. To help producers and agribusiness operators plan for the future and address changing financial needs, FCC is developing products and services to serve customers throughout their business life cycle.

MEETING CHANGING CUSTOMER NEEDS

More than 40 years of experience in agricultural financing has taught us that producers' financial and business needs change significantly as their operations mature. We also have found that proactive planning to address these changes contributes to long-term success. There are five distinct phases to most agricultural operations:

- Preparation and learning: Education and training are key to helping young people prepare for a career in agriculture.
- Start-up: This stage begins when the producer becomes the joint or primary decision-maker in the farming operation. He or she typically requires a significant amount of capital to fund their start-up.
- Growth: Producers in this stage are either expanding their operations or plan to do so in the near future. This group is the most frequent user of farm business management services and actively seeks out new management tools and skills.
- Sustaining: Producers at this stage have no immediate plans to expand and many are preparing to transfer their farm to the next generation. They tend to be older and make less use of business management tools and services.
- Succession and retirement: The average producer at this stage is 60 years old and has been managing a farming operation for 30 years. Most producers plan a gradual succession but do not have a succession plan in place and would benefit from assistance in this regard.

FCC is researching the specific financial and business management needs for producers at each of these five stages. We intend to work with industry partners to address gaps in existing services and offer new and innovative services that our customers will require to succeed in the years to come. This is the backbone of our *Customer for Life* strategic direction: to serve customers throughout their lives, not just the life of the loan.

Bethany Mowat at play,
Ashton, Ontario.

EXPANDED MANDATE OPENS DOORS TO ADDRESSING EMERGING NEEDS OF AGRICULTURE

Last year, we successfully laid the foundation to anticipate and meet the future needs of agriculture by updating our legislation. The main goal of the new *Farm Credit Canada Act* is to help FCC continue to address the changing and complex nature of customers' business needs.

The *Farm Credit Canada Act*, enacted by Parliament in June 2001, includes 22 amendments. The five main amendments focused on customers are the following:

- Financial and business management services: FCC can offer a broader range of these services either directly or through partnerships. This could include such services as business planning, succession planning and risk management.
- Expansion of services to farm-related businesses: The corporation can finance more farm-related businesses that benefit agriculture, including those that are not farmer-owned. Our former legislation confined FCC to financing only those farm-related businesses majority controlled by producers.
- Venture capital financing: FCC can now offer venture capital financing and act as a catalyst to attract more investment into the agricultural industry. There is a strong need for more capital to support future growth. After we have put the required resources and skills in place, FCC will begin working with partners to increase the amount of venture capital available to agriculture.
- Lease financing: FCC is able to offer lease financing either directly or through partnership. While our previous legislation allowed us to offer lease financing, this amendment clarifies the scope of these services.
- FCC's activities will remain focused on producers: The new Act includes an amendment articulating the corporation's continued commitment to producers.

A BALANCED APPROACH TO MEETING AND ANTICIPATING CUSTOMER NEEDS

Every year FCC measures progress in achieving the goals of the annual corporate plan using a system called the "balanced scorecard," which translates FCC's vision and strategic direction into measurable objectives. From the corporate level to the individual level, objectives, goals and measures are set based on the key performance areas. The balanced scorecard enables the corporation to gain an overall perspective of operations and closely monitor progress in four key strategic result areas:

Customer loyalty and market presence: FCC continually strives to provide primary producers and agribusiness with financial solutions that enable them to succeed.

Human resources and organization: Focusing on employee development and a positive workplace environment leads to productivity to the benefit of customers.

Process effectiveness and quality improvement: Timely, efficient and relevant customer service delivery is key to providing our customers with the kind of solution they need, when and how they want to receive it.

Financial success: Sound financial management of the corporation enables FCC to continue meeting, exceeding and anticipating the needs of producers and agribusiness.

OUR NEW *legislation* POSITIONS US TO SATISFY *long-term* NEEDS.

Customer loyalty and market presence

To ensure the long-term success of producers and agribusiness, greater access to capital and business planning resources is required. FCC is committed to meeting these needs. With new legislation adopted in 2001, the corporation is in a good position to offer a wider range of financing products and business solutions through new means and channels.

FCC plays an important role as a catalyst to encourage investment and new products in agriculture. We also serve as a stabilizing force – maintaining a consistent presence during all industry cycles. Since 1993, FCC's share of total Canadian farm debt has grown steadily to 17.7 per cent as of December 2000 (Statistics Canada). This trend indicates that we continue to meet the industry's needs.

New flexible and customized financing solutions

At FCC, customer feedback plays a key role in our product development process. After the major success of our Flexi-Hog loan, launched in 2000, FCC extended the loan's flexible features to other sectors. Flexi-Farm loans are now available to producers who manage cash crop, cow-calf, poultry, potato, horticulture or dairy operations. The loans offer producers up to five principal payment pauses that can be used to manage market cycles or seize opportunities.

Alliances and partnerships

FCC has continued to build partnerships to help our customers get the financing they need to grow and prosper. As of March 2002, our alliance partners in both the private and public sectors totalled 32, compared to 27 the previous year. One new alliance agreement reached last year was with Saskatchewan Wheat Pool to offer crop input financing to prairie producers.

Equipment financing program offers convenient service

Glenn Horyshen is the owner of Kelsey Farm Equipment, located in Swan River, Manitoba. The New Holland and Case IH dealership sells machinery to grain farmers and cattle ranchers in northwest Manitoba and northeast Saskatchewan.

Three years ago, he was looking for a financing program that offered his customers both convenience and fast service. Glenn found what he was looking for when FCC Account Manager Phil Forbes stopped by to chat about the National Equipment Dealer Financing Program.

"This program is one of the industry's best kept secrets," Glenn says. "All I have to do is call FCC's Dealer Direct 1-800 number, give the phone to the customer and FCC takes care of the rest."

Create solutions for customer success

Strategies 2001-02

Grow support for primary production and agribusiness through increased market presence and continued customer relationship building.

- $1.8 billion in disbursements, including: $1.33 billion in disbursements to primary producters; $250 million in direct disbursements to agribusiness; $220 million in disbursements through alliances.
- Improve customer retention by 2%.

Increase options for service delivery through e-business channel development.

- Customer Service Centre (CSC) operational as delivery channel and integrated with e-commerce.
- Increase disbursements via electronic channel.
- Business-to-business Internet loan processing and banking to be established with three alliance partners.

Anticipate needs of the agricultural industry with proactive product development.

- Generate additional revenue from fee-based products introduced in 2000-01.
- Achieve targets identified in business cases supporting interest-based products introduced in 2000-01.
- Deliver five new interest-based and two new fee-based products. At least one of these products to be Web-based.
- Delivery of 20 lifecycle planning seminars throughout Canada under the AgriSuccess initiative.
- 20% of AgriSuccess site hits will access a site offering.
- Establish a business alliance with one First Nations group in each sales area.

Offer expert knowledge to customers.

- Positive trend results of Customer Loyalty Index and Brand Equity Survey factors associated with specialized knowledge.

Results 2001-02

- FCC disbursed $2.294 billion, with $1.730 billion to primary production, $306 million to agribusiness and $257 million through alliances.
- In 2001-02, the CSC approved $31 million in direct loans through the National Equipment Dealer Finance Program, and processed in excess of $246 million in alliance disbursements.
- The CSC moved to an electronic loan application submission process with 14 of FCC's livestock alliances in Alberta.
- FCC launched its first crop input financing loan with Saskatchewan Wheat Pool.
- In January 2002, secure Internet access to loan statements was introduced to Cattlemens Financial Corporation customers.
- FCC increased penetration of creditor life insurance by 0.7 per cent on new lending in 2001-02.
- Launched in 2000-01, Flexi-Hog, Entreprise Plus and Enviro-Loan products exceeded their yearly targets.
- The corporation introduced seven new interest-based products.
- *Farmland Values* Online developed by fiscal year-end and launched in April 2002.
- 50 AgriSuccess lifecycle planning seminars were held across Canada. About 1,400 participants, representing 650 families, attended the seminars.
- Discussions exploring possible alliance opportunities were initiated with aboriginal capital corporations in Ontario, Manitoba, Saskatchewan, Alberta and British Columbia.
- A comprehensive corporate customer retention strategy was completed in the 4th quarter of 2001-02. A second Customer Loyalty Index will measure retention results.

Strategies 2002-03

- Implement Customer Relationship Management (CRM) techniques.
- Provide venture capital as a business line.
- Develop and initiate complementary services.
- Integrate knowledge management into core business of FCC.
- Deliver new financial products and business solutions addressing customer needs.

Targets 2002-03

- Apply Customer for Life segmentation – target of 30% of customer segmentation by March 31, 2003.
- Establish venture capital business line – target up to $5 million invested by March 31, 2003, and $25 million within five years.
- Establish complementary services as a business line – target of two complementary services launched by March 31, 2003.
- Provide relevant syndicated or third party information on the FCC Web site – target of 150 information pages by March 31, 2003.
- Disbursements for primary production, agribusiness, and alliances – target of primary production $1.48 billion, agribusiness $325 million, alliances $425 million for fiscal 2002-03.
- Launch a product suite for new entrants to agriculture – by March 31, 2003.

Human resources and organization

Building long-term customer relationships requires a workforce that is dedicated, skilled and innovative. FCC's commitment is to provide employees with the work environment, learning opportunities and challenges they need to achieve their full potential.

Learning and leadership

FCC provides employees with specialized training, customized to meet the financial needs of the agricultural industry. From risk management and credit analysis to communication and marketing, employees can access various opportunities to grow their skills to benefit our customers.

FCC also offers exceptional leadership development and succession planning programs. These allow employees to chart their professional development, and enable the corporation to ensure strong and consistent leadership for the future.

Official Languages and Diversity

As a federal Crown corporation, FCC provides customers as well as employees with service in both official languages. FCC also works towards achieving a diverse and inclusive workplace. In 2001-02, FCC focused on raising awareness and education. All corporate office employees participated in diversity training in 2001-02, with plans for field employees to do the same in fall 2002. FCC employees participated in special days for designated groups (including National Aboriginal Day, International Day for Persons with Disabilities, International Women's Day and International Day for the Elimination of Racism).

Knowledge Management: FCC's teams of experts

Carol Brennan grew up on a dairy and apple farm. She studied agricultural economics at the Nova Scotia Agriculture College and has worked as an FCC Account Manager for the last four years. Yet Carol feels that the more she works in agriculture, the more she realizes how much she has to learn.

That's what motivated her to join one of FCC's seven Communities of Practice: informal groups of employees who share knowledge regarding their areas of agricultural expertise. These groups represent the first step in an ambitious knowledge management strategy that leverages one of the corporation's most important intangible assets – the expertise and knowledge of employees.

FCC account managers have long engaged in informal "knowledge sharing." The new communities of practice have formalized the capture of our knowledge so we can collectively "know what we know."

"FCC can clearly be identified as a world-class knowledge-management organization," says Dr. Nick Bontis, Director of the Institute for Intellectual Capital Research at McMaster University. "They should be recognized as a leading light in Canada."

The forestry Community of Practice augments Carol's expertise which allows her to add more value to customers and speed up the loan process.

"Being able to rely on internal and external experts from across the country helps me develop professionally, while increasing my effectiveness in serving our customers."

Unique people leading our success

Strategies 2001-02

Continuously improve factors contributing to employee satisfaction.

- A statistically significant improvement from January 2001 Human Resources Index (HRI) results, with a special emphasis on the communication component.
- Attraction and retention strategies implemented to assist in maintaining the voluntary turnover rate at less than 10%.
- Achieve goals set out in the Corporation's Employment Equity and Official Languages plans.

Develop knowledge, skills and expertise to reinforce FCC's Customer for Life strategy.

- 3.5% of corporate salary budget invested in training and development.
- Competencies identified and plan established.
- Ten industry expert teams established throughout FCC.

Inspire innovation.

- Launch innovation program.
- All innovations implemented in new products and solutions generate increased revenues, reduced costs, improved efficiencies or effectiveness and increase customer and employee loyalty.

Results 2001-02

- Employees developed and implemented HRI action plans in each division. The next HRI survey will be conducted in July 2002.
- Attraction and retention strategies were implemented, resulting in a voluntary turnover rate of 4.6%.
- Corporate office staff participated in diversity training in 2001-02, with plans for field staff training in fall 2002. All Official Languages goals met for service to employees and customers.
- 3.6% of corporate salary budget was invested in training and development.
- Work on updating core competencies was begun.
- A self-service model and process for employee benefit and pension administration was implemented in 2001-02.
- A Knowledge Management strategy was created and seven agricultural sector teams were established in 2001-02.
- A Web-based innovation program was piloted in 2001-02.
- FCC's innovative Flexi-Farm products has generated $49.1 million in lending over the last 7 months of fiscal 2001-02.

Strategies 2002-03

- Mentor, train and develop all staff.
- Recruit skills that expand existing corporate competencies.
- Expand leadership training.
- Recognize and reward workplace innovation.

Targets 2002-03

- Training and development spending/salary dollars – target of 3.5% each fiscal year.
- Employee development plan completion – target of 100% by November 30 each fiscal year.
- Acquire venture capital and complementary services expertise – target of March 31, 2003.
- Establish a university recruitment program – target of March 31, 2003.
- Implement the corporate innovation program – target of 10 innovative ideas sponsored by March 31, 2003.

Process effectiveness and quality improvement

At FCC, we strive to continuously improve service to customers. We constantly seek to improve our processes, delivery channels and the quality of advice we provide.

FCC E-BUSINESS CHANNEL READY FOR LAUNCH

FCC developed the e-business channel to offer customers fast and easy access to services and information through the corporation's Web site. Last year, employees worked hard to plan, develop and test the business and technological infrastructure needed to make e-business a reality.

There were several major online milestones achieved in 2001-02. The corporation developed the capacity to allow customers to register and view up-to-date account information through our Web site – a service launched in April 2002. We also created *Farmland Values* Online, a service that offers land value reports customized according to location. Cattlemens Financial Corporation, FCC's largest alliance partner, gained online access to its customer accounts.

INCREASED EFFICIENCY LEADS TO BETTER SERVICE

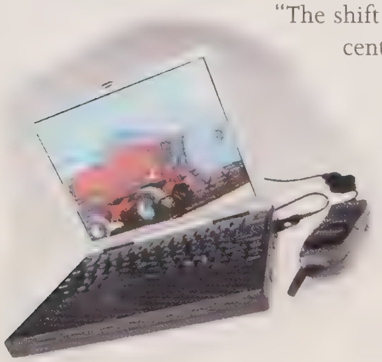
Last fiscal, FCC continued to add efficiencies in loan processing to provide customers with fast turnaround on lending decisions. Our lending policies allow field employees significant decision-making authority to process loan applications quickly. As well, we improved our credit application scorecard, used by employees for preliminary loan assessment, to further improve loan approval times.

The reorganization of Human Resources (HR), started the previous fiscal, produced positive results in 2001-02. Each FCC division now has an HR Business Partner who acts as primary point of contact. Benefits administration has been outsourced to an external supplier. As a result, employees can access information about their benefits or make transactions by calling the FCC Benefits Centre or over the Internet.

Increased efficiencies throughout the corporation have resulted in FCC spending 48.4 cents for every dollar earned, better than the planned target of 49 cents. This means more capital resources are available for our customers and the agricultural industry as a whole.

PROVIDING FAST, EASY ACCESS TO SERVICE

In 2001-02, FCC's Customer Service Centre dramatically changed the way it operates from an in-house help desk for FCC lending staff to a customer-oriented hub that handles customer requests.



"The shift from internal to external has been very smooth, considering that we witnessed a 400 per cent increase in the number of calls we receive. On average, the Centre's 20 employees answer calls within 11 seconds, the best 'average speed of answer' in the industry!" says Michael Hoffort, Director, Customer Service Centre & Channel Development.

The Centre also has significantly decreased loan processing times. Employees can process loans in eight minutes, which is one-third more efficient than before the changes. The Customer Service Centre will play a crucial role in providing telephone and online services to FCC customers. Our goal is to serve customers in the channel of their choice – in person, by phone or via the Web.

Making it easy for customers to do business with us

Strategies 2001-02

Continuously improve process effectiveness and operational efficiency

- Reengineered Human Resources processes implemented by September 30, 2001 with realized net efficiency gains.
- Engineer new business processes and redesign existing business processes, in support of e-business implementation.
- Corporate efficiency ratio (expense/revenue) of 49%.

Leverage technology to enable and sustain delivery of superior customer service offerings

- Information technology infrastructure availability target of +99%.
- All technology-related projects delivered within specifications.
- 100% of service level targets achieved for all mission-critical applications.
- Reengineered Information Technology processes implemented.

Do it right the first time, all the time (quality improvement as a business driver)

- 98% accuracy on completed data fields.
- 100% of required customer information data fields complete.
- Quality index developed, benchmarked and operationalized by October 1, 2001.

Results 2001-02

- As of September 30, 2001, the following HR processes had been reengineered: benefit administration outsourced; HR business partners assigned to internal client groups.
- The corporate efficiency ratio is 48.4%.
- The +99% availability target has been achieved for the information technology infrastructure: corporate servers, including Mainframe and Unix hosts, regional servers, wide area network and Oracle databases.
- FCC's Information Technology division delivered infrastructure and business system support projects within specifications throughout 2001-02. These include: performance improvements of BOSS Loan Origination System, and integration with alliance partner systems.
- FCC's Technology Services unit also delivered infrastructure projects within specifications, including: internet security enhancements, and operating system software upgrades.
- Service level targets were achieved for Mainstream and other critical applications.
- A reengineering review of Information Technology business processes was completed, and implementation will occur next fiscal.
- Data clean-up on selected key customer information fields was completed.
- FCC amended quality index goals during the year. A customer information management strategy, incorporating data quality, was approved in 2001-02.

  Implementation will be completed in next fiscal.

Strategies 2002-03

- Integrate and grow FCC's Customer Service Centre, e-business and alliance capabilities.
- Integrate flexible corporate information systems.
- Re-engineer business processes.

Targets 2002-03

- Percentage of FCC disbursements via CSC, e-business, and alliances – target of 20% for fiscal 2003.
- Implement IT strategy, supported by redesigned business processes – target of March 31, 2003.
- Corporate efficiency ratio – target of 48.1% for fiscal 2003.

Financial success

Lifetime relationships with customers depend on FCC's ability to remain financially viable over the long term. In 2001-02, the corporation recorded its ninth consecutive year of portfolio growth, at 11.7 per cent.

Key performance indicators

FCC's financial strength continued to improve in 2001-02 as a result of sound financial and risk management, portfolio growth and increased efficiency. This has allowed the corporation to exceed the 2001-02 targets for return on equity, return on assets, cost of funding and strategic credit risk model score. The debt-to-equity ratio is slightly higher than target but well below the legislated maximum.

Efficient borrowing

To help customers grow and prosper, FCC's ability to borrow funds efficiently is critical. In 2001-02, the corporation kept its borrowing cost at four basis points above the Government of Canada borrowing curve, one of its best performances ever. Flexibility and responsiveness are at the core of the corporation's funding strategy.

FCC Bonds offer stability

Farm Credit Canada Bonds are a solid choice to add stability to people's investment portfolios. They can help balance RRSPs, RESPs, RRIFs and investment strategies.

With the funds raised from issuing bonds, FCC provides lending capital to producers and agribusiness operators. The bonds are competitively priced and completely secure. Because FCC is a federal Crown corporation, its bonds are guaranteed by the Government of Canada.

With pricing based on daily market interest rates, FCC bonds can be purchased with a minimum investment of $5,000 and then in multiples of $1,000. An income stream can be created by purchasing different bonds with a variety of maturity dates. Interest is payable monthly, semi-annually or at maturity.

"FCC Bonds allow investors to help sustain the growth of agriculture, while benefiting from capital safety and competitive yields," says Don Stevens, Vice-President and Treasurer. The bonds are available through investment dealers across Canada.

The foundation of continued customer support

Strategies 2001-02

Ensure long-term viability

- Return on equity (ROE) of 8.2 per cent.
- Return on assets (ROA) of 0.78 per cent.
- Debt-to-equity ratio of 9.4:1.
- Cost effective funding 10 basis points (bpts) lower than the Crown borrowing curve.

Proactively manage risk

- Maintain strategic credit risk model (SCRM) score on portfolio less than 70 (representative of a "managed approach" that is neither conservative nor aggressive).
- Manage operations within approved treasury risk limits.

Results 2001-02

- ROE of 8.7 per cent.
- ROA of .91 per cent.
- Debt-to-equity ratio of 9.6:1.
- In 2001-02, FCC issued bonds at an average of 4 bpts over the Government of Canada curve, 13 bpts lower than the Crown borrowing curve.
- The SCRM score as at March 31, 2002, was 58, well within the score range of 50 to 75 indicative of a "managed approach."
- Treasury was within all approved Board and Department of Finance limits.

Strategies 2002-03

- Create a portfolio vision spanning all business lines, ensuring a principal focus on primary production.
- Proactively manage risk, investments and administrative expense levels.
- Proactively create and grow FCC's support for communities across Canada.

Targets 2002-03

- Establish a portfolio vision for agribusiness by March 31, 2003.
- Return on equity of 10.05 per cent for fiscal 2002-03.
- Debt-to-equity ratio of 9.2:1 at March 31, 2003.
- Strategic credit risk score on portfolio less than 70 – target of March 31, 2003.
- Community investment of one per cent of the previous 3-year average net income, invested by March 31, 2003.

Building Community Strength

At Farm Credit Canada, we're committed to helping build strong and vibrant rural communities throughout Canada, where our customers and the agricultural industry can flourish. We do this by partnering with many organizations at the local and national level.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC is committed to giving one per cent of profits to charitable and not-for-profit community organizations through the donation of financial resources and in-kind services.

FCC's community investments are aligned with our business: agriculture. Therefore, we focus on issues of farm safety, hunger and education regarding where food comes from. We strongly believe that a safer workplace and a greater awareness of food-related issues contribute to long-term success for Canadian farmers and their families.

Putting food on the table

FEEDING THE FUTURE FOR WORLD FOOD DAY

Farm Credit Canada's 900 employees rolled up their sleeves to mark World Food Day in October 2001. FCC donated more than $25,000 in financial aid, food and volunteer support to food banks across Canada. In partnership with the Canadian Association of Food Banks, FCC is helping food get to where it is needed most.

FCC FOOD BANK VAN ... NOURISHING RURAL COMMUNITIES

Farm Credit Canada donated a van to the Regina and District Food Bank. The FCC Food Bank Van is used to pick up large donations of food and to transport food hampers to rural locations.

Building community strength

4-H SCHOLARSHIP PROGRAM

Farm Credit Canada is committed to enhancing rural Canada. FCC was pleased to again offer scholarships to young 4-H members in support of post-secondary education. For the 2001 scholarship program, applicants were asked to create a plan that would reduce hunger or improve safety in their own community. Ten $1,000 scholarships were awarded, with one winner from each province. Congratulations to our national winner, Linda Varekamp of Glencoe, Ontario, for her project called "Kids Biking Safely." As our national scholarship winner, Linda received an additional $1,000 scholarship and a budget to put her plan into action.

It's all about farm safety

FIRST AID ON THE FARM

Farm Credit Canada and St. John Ambulance partnered to launch the First Aid on the Farm program in May 2001. The program is aimed at teaching young people life-saving skills pertaining to farm-related injuries. In the past year, FCC provided training to more than 2,300 grade eight students in 85 schools across Canada. Students receive basic first aid skills and a farm safety audit to complete at home with their parents. The audit helps farm families identify hazards that may exist on the farm.

RUNOVERS ARE PREVENTABLE – NO RIDERS!

FCC was the exclusive corporate sponsor for the 2001 Canadian Agricultural Safety Week campaign. We worked with our partners throughout the year at the Canadian Federation of Agriculture, the Canadian Coalition for Agricultural Safety and Rural Health, and Agriculture and Agri-Food Canada. Using the "Runovers Are Preventable," theme to educate farm families on tractor safety issues. FCC encouraged using the "no riders" rule to prevent fatalities from tractor and machinery runovers.

FCC AND THE CANADIAN ASSOCIATION OF FOOD BANKS ARE *helping* FOOD GET TO WHERE IT'S NEEDED *most*.

From our employees

EMPLOYEE VOLUNTEER PROGRAM

Giving back to the community is a core value at FCC. FCC adds value to its community efforts by supporting employee voluntarism. This past year, we established the Farm Credit Canada Employee Volunteer Program. Employees who volunteer their time, talents and energies can access funds to support their choice charities. So far, FCC has donated more than $15,000 to charities and not-for-profit organizations where our employees volunteer.

In 2001, FCC set another record in our United Way National Campaign. In total, our 900 employees helped raise more than $151,000 for the United Way and its member agencies through donations and special events.

Innovative financing solutions for agriculture

For more than 42 years, FCC has worked closely with Canadian producers and, more recently, agribusiness to develop the financing solutions they need to succeed.

New products and services targeted to specific needs

In 2001-02, FCC introduced several innovative products tailored to specific sectors or particular financing needs. We proactively seek customer input and create products that respond to identified needs.

FLEXI-FARM

FCC created Flexi-Farm to allow producers to pause principal payments to accommodate changing cash flows. The loan offers up to five periods of interest-only payments and is designed for producers in cash crops, cow-calf, poultry, potatoes, horticulture and dairy.

Opportunities to expand, new equipment purchases, weather and commodity price fluctuations can all challenge cash flow. The loan enables producers to deal with market realities and capitalize on new opportunities. Flexi-Farm is based on FCC's popular Flexi-Hog Loan, launched in 2000.

PERFORMER LOAN

The Performer Loan helps agribusiness operators expand their enterprises. Customers develop business plans with FCC and interest rates are decreased as they reach agreed-on goals, such as a proven repayment track record and enhanced current or working capital ratios.

OPPORTUNITY LOAN

During the course of this loan, agribusiness operators can pause their principal payments or re-advance the principal on their current loan. Customers can pause principal payments up to six times with each pause lasting up to six months.

AGRIBUSINESS AMERICAN CURRENCY LOAN

For agribusiness enterprises that export into foreign markets, this loan makes it possible to borrow capital and make payments in U.S. dollars.

Loan products and services

Here is a sample of other FCC products and services:

LONG-TERM LOANS

FCC offers fixed interest rate terms of up to 20 years and amortization periods between three and 29 years to provide long-term stable options for Canadian farmers.

PERSONAL PROPERTY LOANS

With no prepayment or processing fees, along with monthly, quarterly and semi-annual payment options, the FCC Personal Property Loan is ideal for purchasing livestock, new and used equipment or quota. Terms range between two and seven years and may be amortized up to 10 years with variable or fixed interest rate options available.

VARIABLE RATE LOANS

FCC has two variable rate options for any agricultural or farm-related purpose, such as land, buildings, quota, equipment or livestock, secured by real or personal property. The loans give the customer the flexibility to decide the right time to lock in for a longer term.

FLEXI-FARM LOANS

Flexi-Farm allow producers in most sectors to pause principal payments to accommodate changing cash flows. The loan offers up to five periods of interest-only payments. Flexi-Hog helps hog producers deal with changing cash flows and grow their business by providing the flexibility to defer the principal portion of payments during volatile periods. Hog producers can pick the time they take the postponement, which can last for up to a year.

ENVIRO-LOAN

Enviro-Loan helps customers construct, improve or expand waste management facilities without putting a strain on cash flow. It is designed for producers and agribusiness operations that are making environmentally focused improvements, such as shelterbelts, buffer zones to stop soil erosion and composting facilities and structures.

AGRISTART LOANS

This innovative product line is designed to help families transfer farming operations from one generation to another as well as assist developing farmers in starting or expanding their operations. AgriStart encompasses the following three products:

- The Family Farm Loan enables the developing farmer to finance the purchase of farm assets or transfer shares in a family farm business. Successfully launched in 1993, it has been updated and streamlined to increase flexibility and serve a wider market.
- The 1-2-3 Grow Loan provides financing with deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years.
- The Payday Loan is designed for individuals with off-farm employment interested in starting or expanding a farm business.

PLANT NOW – PAY LATER

FCC understands that expanding a horticultural operation often results in a reduced income stream for the first few years. Customized to suit varying developmental phases, Plant Now – Pay Later loans meet the needs of the fruit-growing industry, including soft fruits and berries.

FARMBUILDER CONSTRUCTION LOAN

Financing for building projects is easier with this product that provides interim financing for construction. The Farmbuilder Construction Loan applies to any type of construction project eligible for FCC financing. No payments are required during the construction period and funds are disbursed as needed during the project.

ENHANCED CREDITOR LIFE INSURANCE

At FCC, we take the health and safety of farm families seriously. We offer enhanced creditor life insurance to current and new customers through our carrier, Clarica Life Insurance Company. In addition to life insurance, the program provides customers with Accidental Dismemberment coverage that includes an early payout option in case of terminal illness. This coverage is among the best in the industry and was made available to FCC customers at no extra cost.

AQUACULTURE

FCC offers various financing options to meet the needs of aquaculture producers from an expansion project to strategic partnerships with enterprises specializing in salmon, freshwater fish or shellfish operations.

FORESTRY

The Spring Break loan allows operators to buy used and new forestry equipment or short-term harvesting rights. Payment schedules can be adjusted to coincide with harvesting season. The Stop & Grow loan is for operators buying immature woodlots for future harvesting. Operators can defer principal payments for up to 10 years to allow saplings to become trees.

Other partnership services

FCC has 32 alliances with private sector and government organizations in the agricultural and financial industries to provide customers access to a wide range of financial options. Our federal Crown partners include the Canadian Commercial Corporation, Business Development Bank of Canada and Export Development Canada.

FCC enters the venture capital arena

With the passage of the *Farm Credit Canada Act* in 2001, FCC can now offer venture capital financing either directly or in partnership with others to help agricultural operations grow and succeed. The corporation intends to act as a catalyst to attract other equity providers to the industry, creating economic growth and jobs in rural Canada.

Despite the fact that it accounts for $36 billion of Canada's gross domestic product, the agricultural industry received less than one per cent of total venture capital disbursements, according to 2001 statistics.

There are many profitable emerging markets that hold great potential for Canadian agriculture. Agricultural entrepreneurs are exploring market niches ranging from organic production to alternative fuels. However, they need access to large amounts of capital. This is where FCC can play an important role.

"At FCC, we are patient. We will not expect immediate returns because we know the cyclical nature of agriculture. We view equity financing as an opportunity to participate in the development of strong and well-managed companies. One of the purposes of FCC's venture capital is to develop a portfolio that will stimulate the industry and attract the attention of other investors," says James Taylor, Vice-President, Venture Capital.

FCC will proceed prudently into this new area of financing, beginning to invest capital in fiscal 2002-03 once the necessary resources are in place. Through agricultural industry relationships, FCC intends to attract venture capital partners to benefit the industry.

> "ONE OF THE *purposes* IS TO DEVELOP A *portfolio* TO STIMULATE THE *industry*."

Relevant agricultural solutions

FCC offers flexible and innovative loan products tailored exclusively to the agricultural industry. The corporation is using the same approach for new offerings currently under development: an integrated portfolio of business tools for producers and agribusiness operators.

"Customers are telling us they need access to a range of financial and business management services to compete effectively in today's complex marketplace," says Paul MacDonald, Vice-President, Complementary Services and Channel Development.

In 2000, FCC teamed up with private and public sector partners to introduce AgriSuccess – our first effort to increase access to business management services at a national level. Last fiscal, AgriSuccess partners conducted 50 seminars on succession planning, reaching more than 1,400 participants from coast to coast.

"The response to these seminars reinforced the need for management services in the agricultural community," Paul adds. "Wherever possible, we will work with partners to make such services available."

As Canada's leading agricultural lender, FCC has the expertise, the reach and the leadership necessary to promote the importance of networking, financial management, marketing skills and risk management strategies.

"FCC has its ear to the ground, seeking key indicators of success in agriculture," Paul says. Through complementary services, the corporation will provide customers with opportunities to acquire the knowledge necessary to improve levels of management sophistication.

Overview 2001-02

Highlights

- Continued financial strength – solid financial ratios and key indicators through challenging economic conditions.
- Record breaking year in new lending, with $2.4 billion in approved loans to the agricultural sector.
- Strong portfolio growth, breaking the $7 billion mark for the first time.
- Fourth consecutive year of improved operational efficiency.

Key financial results

$ millions	2002		2001	
Loans receivable	**7,715.8**		6,907.6	
Portfolio growth rate	**11.7**	%	9.6	%
Loan approvals	**2,446.1**		1,752.5	
Loan renewal rate	**95.0**	%	94.0	%
Arrears	**29.5**		35.7	
Net interest income	**201.2**		164.5	
Net interest margin	**2.66**	%	2.41	%
Administration expenses	**101.6**		94.5	
Efficiency ratio	**48.4**	%	55.0	%
Income tax before taxes	**68.8**		61.2	
Return on equity*	**8.7**	%	8.4	%
Return on assets*	**0.91**	%	0.89	%
Debt-to-equity	**9.6:1**		9.3:1	**

* *before income tax*

** *equity restated for comparative purposes*

- 40 per cent increase in loan approvals represents an additional $693.6 million invested in agriculture.
- Net interest income 22 per cent higher than in 2000-01.
- Improved efficiency ratio, reflecting process improvements and cost management.
- Increased income before income taxes due to the higher loan portfolio and higher net interest margin.
- Strong debt-to-equity ratio, indicating a solid equity base which will better enable FCC to grow through further investment in agriculture.

Outlook 2002-03

- Continued growth through traditional lending and new alliance partnerships, as well as introduction of venture capital investing.
- Continued industry leadership with new and flexible customized loan products.
- Expanded financial and complementary services offerings to customers.
- Ongoing financial strength provides foundation to serve the agriculture industry over the long term.

Balance sheet

Highlights – Balance sheet

- Loan portfolio up 11.7 per cent to $7.7 billion.
- Loan approvals up 40 per cent to $2.4 billion.
- Impaired loans down $17 million to $128 million.
- Land portfolio reduced to minimal level through a significant program to return land to primary producers.
- Allowance for credit losses up $28 million to $297 million.
- Throughout the year, short and long-term cumulative borrowings were issued of $7.1 billion and $2.4 billion respectively.

Lending activity

The loan portfolio grew 11.7 per cent to $7.7 billion in 2001-02, up from $6.9 billion in the previous year. Service excellence and introduction of innovative products allowed FCC to approve a record $2.4 billion in loans for the year compared to $1.8 billion in 2000-01. This, combined with a 95 per cent renewal rate on loans coming due, accounts for the significant portfolio growth and demonstrates FCC's continued commitment to agriculture in Canada.

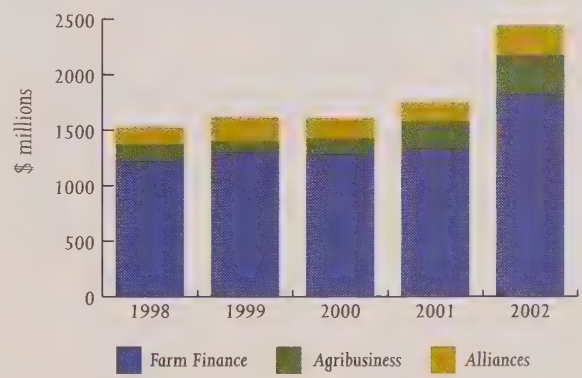
TOTAL LENDING BY LINE OF BUSINESS

FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness and Alliances. Primary producers continue to be FCC's main focus. Lending to primary producers is done through all three lines of business with $2.2 billion or 89 per cent of total 2001-02 approvals directed at primary producers. As of March 31, 2002, lending to primary producers accounted for 93 per cent of FCC's total portfolio.

Farm Finance *(defined as farming that produces raw commodities, e.g., crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness.)*

In 2001-02, Farm Finance continued to focus on meeting the needs of primary producers with loan approvals increasing to $1.8 billion from $1.3 billion in the previous year. Approvals in Farm Finance accounted for 75 per cent of all FCC loan approvals in 2001-02. Within Farm Finance, approvals to primary producers represented 98 per cent of total Farm Finance loan approvals for the year. As of March 31, 2002, lending to primary producers represented 99 per cent of the Farm Finance portfolio.

Approvals by line of business



Agribusiness *(includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as Agribusiness.)*

Loans approved in Agribusiness grew in 2001-02 to $358 million from $251 million in 2000-01. By lending through Agribusiness, FCC helps producers add more value to their commodities as well as create markets closer to home. It also allows individuals to leverage FCC's agricultural expertise in further developing their enterprises.

The corporation helps finance producers expanding into farm-related businesses on the input or output side of primary production. This includes enterprises from feed operations to food processing and agricultural by-product manufacturing. In 2001-02, approvals to primary producers (complex farming operations) accounted for 46 per cent of total Agribusiness approvals. As of March 31, 2002, lending to primary producers represented 46 per cent of the Agribusiness portfolio.

Alliances *(relationships between FCC and other agricultural or financial organizations designed to pool talents and provide expanded services to primary producers.)*

During the year, FCC continued to grow its Alliance lending portfolio, with loan approvals of $270 million in 2001-02, compared to $170 million in 2000-01. Approvals to primary producers accounted for 96 per cent of total Alliance approvals. As of March 31, 2002, lending to primary producers represented 90 per cent of the Alliance portfolio.

The addition of several alliance partners has allowed FCC to expand its service offerings through this delivery channel. FCC demonstrates leadership in the industry in forming these partnerships to enhance product offerings in response to producers' financial needs. A new alliance in 2001-02 with Saskatchewan Wheat Pool now allows FCC to serve a large number of producers through loans for crop inputs.

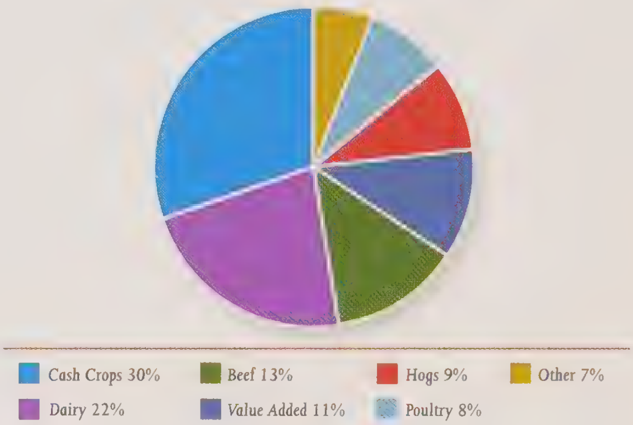
TOTAL LENDING BY ENTERPRISE

FCC lends to all agricultural sectors across Canada grouped by eight major categories (reflected in the charts to the right). Strong portfolio diversification across the eight groups is critical in managing risk and financial performance of the corporation as the sectors go through cyclical and economic swings.

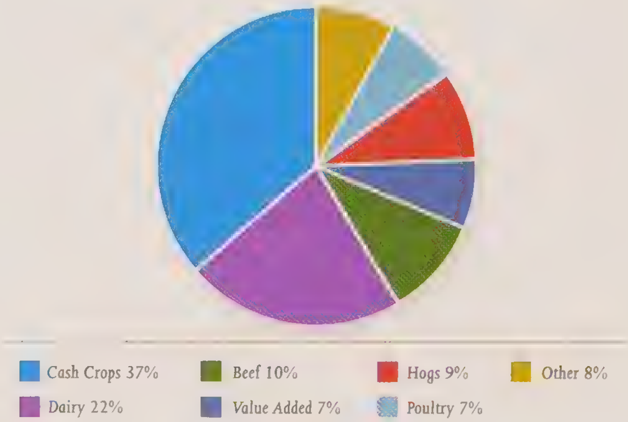
The lending mix continued to shift in 2001-02, creating increased diversification of the portfolio. Loan approvals for poultry, value-added and beef enterprises all increased as a percentage of total approvals for the year. As a result of this shift, the total portfolio of the two major agricultural sectors, cash crops and dairy, has decreased to 59 per cent compared to 60 per cent last year.

New products designed to meet specific customer needs and new and existing alliances have contributed to the diversification of the portfolio.

Approvals by enterprise



Portfolio by enterprise



TOTAL LENDING BY GEOGRAPHIC AREA

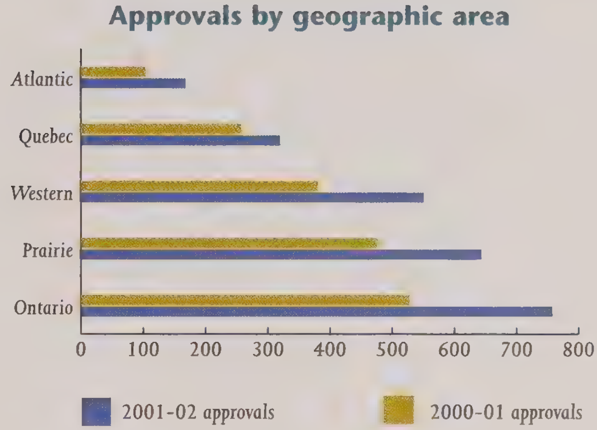
FCC is committed to serving the entire agricultural industry across the country with 100 offices from Abbotsford, B.C., to St. John's, Newfoundland. A geographically diverse portfolio also is important in limiting portfolio risk.

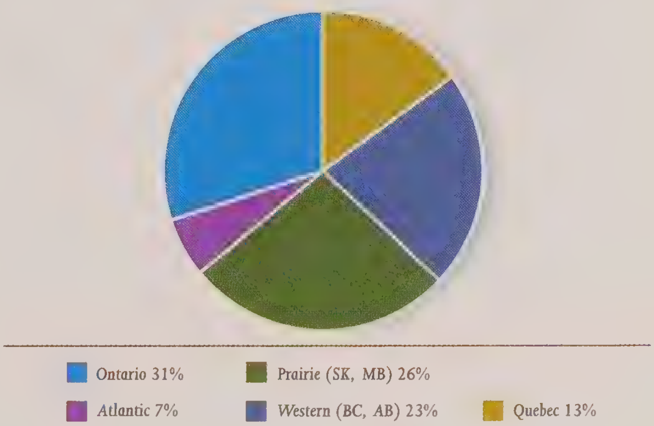
All areas of the country experienced an increase in the total dollar value of loans approved over the previous year. The Ontario, Western and Prairie areas experienced the largest increases, with $230 million, $169 million and $168 million more approvals respectively in 2001-02 versus 2000-01.

The large increase in the Prairie and Western areas is due to increased cash crop lending and the increase in the Ontario area is due to increased dairy and cash crop lending.

On a percentage basis the largest increase was the Atlantic area with a 61 per cent increase in dollars approved, due mainly to increases in value-added, dairy and poultry enterprises.

Overall portfolio growth of 11.7 per cent in 2001-02 is due primarily to significant increases in the Ontario area (15 per cent), Western area (16 per cent), and Atlantic area (16 per cent), a reflection of growth in the cash crops, dairy and value-added industries in these areas. The Prairie and Quebec areas experienced nominal increases in lending in 2001-02.





Strong credit quality

IMPAIRED LOANS

Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

Impaired loan balances at the end of 2001-02 totaled $128 million, compared to $145 million in the previous year. As a result, impaired loans as a percentage of loans receivable decreased to 1.65 per cent from 2.11 per cent in 2000-01.

This is a reflection of FCC's sound risk management policies and practices and the regular involvement of our employees in understanding individual customer situations. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in helping customers through difficult times.

ALLOWANCE FOR CREDIT LOSSES

Allowance for credit losses is management's best estimate of credit losses in the loans receivable portfolio (described further in note 2(c) to the financial statements).

The allowance for credit losses has three components:

Specific – provides for probable losses on specific loans which have become impaired.

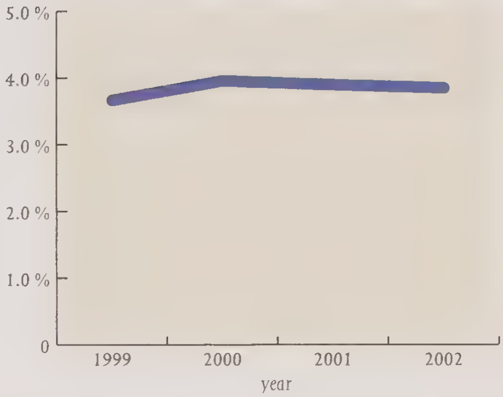
General allocated – management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.

General unallocated – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio which have not yet manifested themselves in specific loans.

The allowance for credit losses increased by 10.4 per cent to $297 million from $269 million in 2000-01. This increase is mainly the result of the 11.7 per cent growth in the portfolio. The allowance as a percentage of loans receivable decreased slightly to 3.85 per cent in 2001-02, compared to 3.90 per cent for the prior year.

In order to limit credit losses and meet the future needs of the agricultural industry, FCC will continue to emphasize good credit quality and build on its sound lending risk management policies and practices.

Loan allowance as a percentage of loans receivable



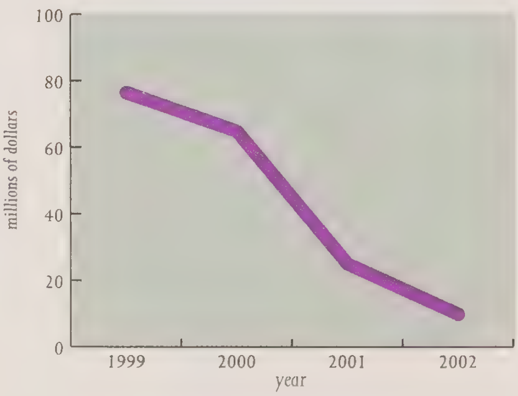
REAL ESTATE ACQUIRED IN THE SETTLEMENT OF LOANS

Real estate holdings by FCC represent land acquired in settlement of loans receivable.

The downward trend in FCC's real estate balances is a reflection of our commitment to return farm land to primary producers. The real estate balance at March 31, 2002 was $10 million (28,855 acres), down from $25 million (120,924 acres) one year ago.

The corporation returned 97,475 acres of land valued at $20 million to farmers this year compared to 249,116 acres, totaling $71 million last year. FCC's program to return land holdings to farmers has been successful, with remaining real estate holdings to be reduced further in 2002-03.

Real estate holdings



Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short; medium-and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium- and Long-Term Note (MTN) Program (FCC Bonds);
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

SHORT-TERM FUNDING

Short-term funding consists of borrowings with a term to maturity of under one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity.

The outstanding short-term borrowings at March 31, 2002, were $2.1 billion, compared to $1.9 billion as at March 31, 2001. This is the result of an increase in variable-rate lending, which is funded by short-term debt.

MEDIUM- AND LONG-TERM FUNDING

Medium- to long-term funding consists of all borrowings with a term to maturity of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2001-02, FCC borrowed a total of $2.4 billion in medium- and long-term funds, which is up significantly from $579 million in 2000-01. The increase is due to higher levels of debt maturing in the year, debt prepayment and portfolio growth. In 2001-02, $2.4 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes.

FCC also issued $24 million in the EMTN market, down from $28 million in 2000-01. Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. As a sovereign borrower, FCC's credit ratings are as follows:

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aa1	P1	Aa1	P-1
Standard & Poor's	AAA	A-1+	AA+	A-1+

FCC intends to pursue opportunities to diversify funding sources and access cost-effective capital market funds. Such initiatives would be established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

OUTLOOK 2002-03 - Balance sheet

- Expected growth of the portfolio with over $2 billion in loan approvals projected for the next year.
- Increased allowance for credit losses to reflect risks associated with a larger portfolio and the uncertainty of general economic conditions.
- Continued financial strength as a result of strong operating and risk management practices.
- Forecast of $2 billion of funding sourced via the domestic or international capital markets.

Income statement

Highlights - Income statement

- Net interest income up 22.3 per cent to $201.2 million.
- Net interest income margin up 25 basis points to 2.66 per cent.
- Administration expense efficiency ratio improved to 48.4 per cent.

NET INTEREST INCOME AND MARGIN

Net interest income (NII) is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

NII increased 22.3 per cent to $201.2 million from $164.5 million last fiscal year. The major factors contributing to this year-over-year variance are:

- a larger portfolio – the loans receivable portfolio for 2001-02 is up by $808 million over 2000-01, which contributed $25.5 million more net interest income; and
- a decrease in interest rates – lower interest expense more than offset lower interest revenue, increasing net interest income by $11.2 million.

The net interest income margin is net interest income expressed as a percentage of the average total assets. It is intended to cover credit risks and administration expenses as well as yield sufficient profit to enable the corporation to remain financially viable and sustain support for agriculture.

Net interest income and margin

$ millions	2002	2001
Interest income		
Loans receivable	$ 527.6	$ 524.6
Investments	17.3	24.0
	544.9	548.6
Interest expense		
Short-term debt	79.7	83.6
Long-term debt	264.0	300.5
	343.7	384.1
Net interest income	**$ 201.2**	$ 164.5
Average total assets	$ 7,566.5	$ 6,815.6
Net interest margin	**2.66 %**	**2.41 %**
Year-over-year change in net interest income due to:		
Increase in volume	$ 25.5	$ 21.4
Decrease in rates	11.2	(11.3)
	$ 36.7	$ 10.1

PROVISION FOR CREDIT LOSSES

The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

The provision for credit losses increased to $45.5 million in 2001-02 from $40.2 million the previous year as a result of a larger portfolio. The provision is expected to remain at high levels in future years due to the risks associated with a larger portfolio and the uncertainty in general economic conditions.

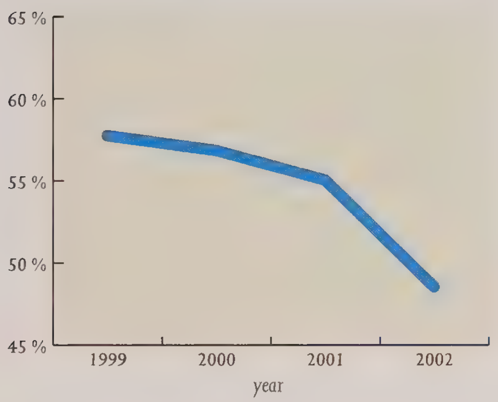
ADMINISTRATION EXPENSES AND EFFICIENCY

Despite portfolio growth that resulted in a 22.3 per cent increase in net interest income, administration expenses increased by only 7.5 per cent. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 48.4 per cent in 2001-02 compared to 55.0 per cent in the previous year.

FCC systematically builds and leverages its agricultural expertise, keeping service levels high while remaining cost efficient. FCC is committed to providing products and services to help agricultural operators succeed throughout the life cycle of their business through:

- continuously improving product and service delivery;
- offering a variety of service channels, including the Internet, for improved service to customers; and
- continuous quality improvement.

Efficiency ratio



The improvement in the efficiency ratio reflects the realization of these commitments and effort in 2001-02 and years previous. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending, and enhance product support, market development and customer service.

INCOME TAXES

During the prior fiscal year, the corporation was in discussion with the Government of Canada with respect to a request for tax exemption. Prior to the date of completion of the financial statements, the discussion around tax exemption was not sufficiently advanced to provide certainty of its eventuality. As a result, the corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, Income Taxes in its March 31, 2001, financial statements.

In its December 10, 2001 Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences and loss carry-forwards, previously recognized in the financial statements, are no longer available to the corporation as deductions against future tax liabilities. As a result, the future income tax asset has no future value and has been removed from the Balance Sheet.

NET INCOME

Income before income taxes for the year increased to $68.8 million from $61.2 million the previous year. This increase was the result of higher net interest income driven by a larger and better performing portfolio. Projected portfolio growth and controlled administration expenses are expected to continue to increase net income. This allows FCC to play an increasingly significant role in the growth of the agricultural industry. All income earned is reinvested into agriculture by financing portfolio growth and new product development.

OUTLOOK 2002-03 - Income statement

- Expected increase in net income due to larger portfolio.
- Administration expenses expected to rise due to growth and the introduction of new business lines in 2002-03, with efficiency ratio improving in subsequent years due to process efficiencies and increased revenue.
- Increased provision for credit losses in response to portfolio growth and future economic volatility.
- Lower net lease and real estate income as a result of winding down real estate holdings.

Managing risk

Highlights – Managing risk

- Enhanced the integration of credit risk assessment and portfolio management tools within the loan origination system.
- Special Credit division assigned to resolve accounts experiencing challenges.
- Completed a full cycle of the new field audit three-year program with field offices achieving higher rate of superior performance.
- Met all risk measurement targets.

Overview

Risk management is key to protecting FCC's customers, business interests and future viability. FCC is exposed to many different risks in its dual role as a self-financing financial institution and a vehicle for federal public policy.

The first concern of the Board of Directors and senior management is strategic risk. Failure to properly execute strategy to meet the needs of the marketplace or FCC stakeholders can dramatically impact the corporation's business. Without an appropriate overall business strategy, the corporation's other efforts at risk mitigation could be compromised as well.

FCC's business strategy addresses three specific types of business risks: credit risk, market risk and operational risk.

Credit risk

The risk of loss due to the failure of a counterparty to meet its financial obligations. This risk includes:

- risk of borrower defaults and associated losses; and
- risk of failure of other counterparties to honour contract arrangements.

Credit risk is inherent in both FCC's lending portfolio and funding programs.

Operational risk

All risks inherent in the operational activities of the corporation:

- control and compliance;
- policies, procedures and processes;
- fraudulent or unauthorized activities;
- information technology;
- e-business; and
- new or unproven business.

Market risk

The potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

INTEGRATED RISK MANAGEMENT

In 2001-02, FCC continued to develop an integrated approach to risk management. New initiatives included a mechanism to continually identify emerging major risks. Additional work has been done to strengthen the management of operational risk.

Follow up continued on the action plans to deal with the five major risks identified in past years. This follow up has confirmed that most of the gaps in risk management have been acted upon, with remaining gaps addressed through work in progress or through actions planned.

Integrated risk management...

An organization-wide process that addresses business risks in an integrated fashion, to optimize returns from risk-taking activities.

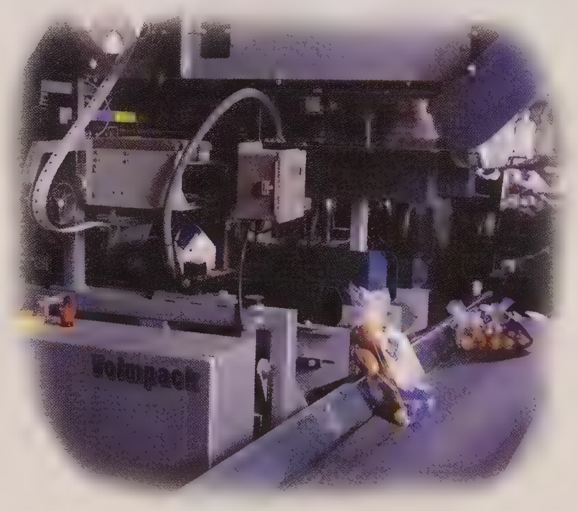
Objectives:
- ensure that important risks are not overlooked; and
- strengthen risk management processes.

FCC's strategic planning process identifies risks facing the business through an assessment of strengths, weaknesses, opportunities and threats. These risks, plus the risks that FCC handles on a daily basis, become the basis for creating an up-to-date assessment of risks that need to be managed. The integrated risk function maintains this risk assessment and determines appropriate responses.

RESPONSIBILITY FOR RISK MANAGEMENT

No one division or unit is responsible for managing all the risks FCC faces. Roles are given to divisions and teams with specialized expertise to address various risk matters.

- The Risk Management division manages transactional credit risk. It carries out credit authorization, customer and loan monitoring, participation in field office credit audits, along with the development and administration of lending and loan administration policies. As well, Special Credit in the Risk Management division resolves accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit risk for lenders and other corporate management functions. The business unit measures the risk of the portfolio with the Risk Scoring and Pricing System and provides corporate direction using the Strategic Credit Risk Model.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of credit, liquidity and market risks at the executive level. The Treasurer reports to the Board on a quarterly basis. Since 2001-02, Treasury has been assigned responsibility for the corporation's Integrated Risk Management Framework.
- The Corporate Audit division is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury area.



Credit Risk

In 2001-02, several initiatives were undertaken to support credit risk management at FCC, including the enhancements of a Credit Application Scorecard and the Risk Scoring and Pricing System. Continued testing and use of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. The portfolio vision also includes goals for the performance and structure of the loan portfolio that the corporation desires.

A revised agribusiness lending operations policy was put in place during the fiscal year. New employees directly involved in lending activities completed additional credit training. Credit risk management for our agribusiness lending has continued to evolve, primarily due to the Special Credit team, and improved account reviews, as well as the experience and expertise gained as the agribusiness portfolio grows.

In 2000-01, FCC introduced a new internal risk-rating system, the Risk Scoring and Pricing System (RSPS). In 2001-02, Portfolio Management and Information Technology enhanced this tool by improving its enabling software. This tool helps FCC employees evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Risk Scoring and Pricing System – a more comprehensive measurement of credit risk

- Fully integrated with centralized loan origination systems.
- Regular, automatic updates ensure information used for risk scoring and pricing is current and relevant.
- System provides the information necessary to develop future portfolio concentration management strategies and portfolio vision.
- The ability to map credit risk to any desired level of aggregation improves portfolio analysis capabilities and the risk-return relationship.

It is continually updated with the information necessary to rate the different risks associated with individual loans, customers' payment behavior and the agricultural sector in which the customer operates. RSPS also allows better separation of risk categories than past measurement tools, reflecting more accurately the numerous levels of potential risk. The system is based on historical FCC loan portfolio performance to ensure that the model reflects specific tendencies in agricultural lending. The system is tested and refined on a constant basis to ensure its relevance in today's changing environment. Work is in progress to improve the allocation of administration costs within the RSPS model.

Nova Scotia team
Top row: Mike Foster
Second row from top: Susan Stone, Bill Cole, Bruce Bishop
Third row: Sharon Hirtle, Heather Montgomery, Bobbi-Jo Turner
Bottom row: Greg Cox, John Hutchings

STRATEGIC CREDIT RISK MODEL

RSPS feeds information on risk at the individual loan level into a Strategic Credit Risk Model (SCRM) that measures overall credit risk present in the portfolio. The SCRM reflects the impact of corporate priorities, credit culture, risk strategy and risk controls to maximize financial performance while maintaining credit performance within an acceptable range of volatility. This overall risk is calculated based on three broad categories whose risk is scored as low, moderate or high:

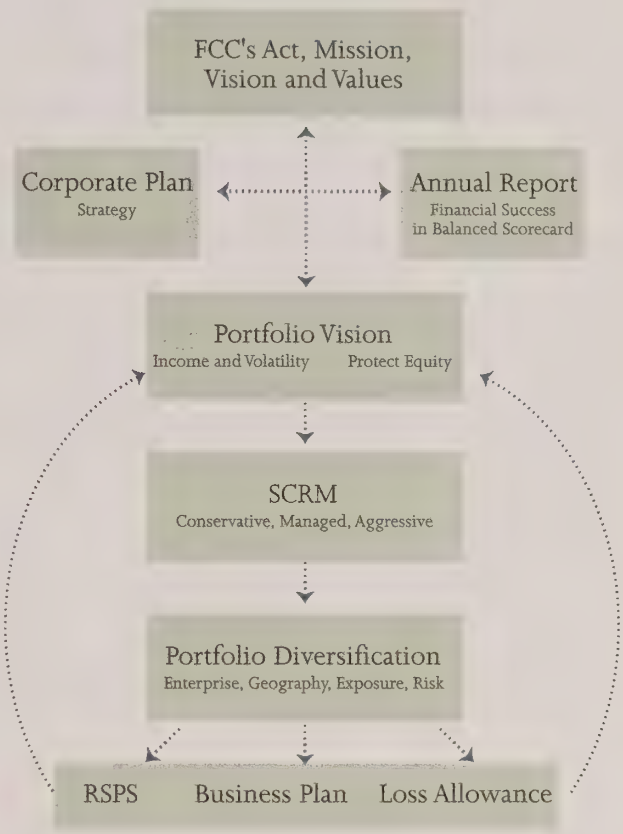
- transaction risk: the risk presented by individual loans and the customers who support these loans;
- intrinsic risk: the risk presented by the industries, lines of business or enterprises from which the income supporting loan repayment is drawn; and
- concentration risk: the risk of various types of concentrations in the overall portfolio.

The model weighs the three different risks and their severity to provide a score which indicates overall strategic credit risk as conservative, managed or aggressive. FCC's goal is to maintain a managed credit risk strategy, consistent with the portfolio vision. This translates to a moderate level volatility in overall credit risk and financial performance.

Strategic Credit Risk Model results, as of March 2002, determined that risk was moderate in all three categories – transaction, intrinsic, and concentration risk. This resulted in a managed level of overall strategic credit risk.

These results also show steady improvement in overall credit risk exposure over the past five years, indicating that credit risk has been managed successfully. Comparisons made to results from mid-1980s' data indicate significant progress in reducing overall levels of credit risk.

Credit Risk Management



FIELD OPERATIONS AUDIT PROCESS

Three years ago, FCC introduced a Field Operations Audit Process to assess risk and performance of business operations at a field level. Together, the Corporate Audit and Risk Management divisions participate in the audit program, which provides an independent assessment of quality and risk associated with lending operations. The program was established to examine lending activities and provide learning opportunities for employees to improve their performance in the areas of risk assessment and mitigation, compliance to lending policy, data integrity and other quality assurance activities. Enhanced risk management practices will ultimately contribute to better customer service.

The scope of the program includes the following key components:

- compliance to lending and corporate policies;
- documentation, financial analysis and risk mitigation;
- internal control activities (office efficiency and physical security); and
- marketing activities.

The Operations Index Score is determined by accumulating the compliance levels for each element of the index adjusted by the number of major exceptions identified. Operations Index categories are: superior performance, good performance, fair performance, unsatisfactory performance.

There has been an increase in the percentage of field offices receiving a superior rating on their audit results over the three-year term of the program.

Performance rating	2001-02	2000-01	1999-2000
Superior performance	**56%**	35%	29%

SPECIAL CREDIT

Last year, the mandate of the Special Credit division was formalized with new policies to deal with accounts in difficulty where it was considered likely that financial performance could be enhanced to again establish satisfactory credit ratings. Earlier identification of substandard performing loan accounts was considered essential to enable increased monitoring and evaluation of alternatives. Nationally, 60 per cent of accounts handled by Special Credit were favourably resolved and remain as performing accounts.

Many of the risk measures used for assessing the portfolio quality indicate a strengthening risk profile and achieving the desired strategic credit risk profile. With the numerous challenges faced by our customers in the agricultural economy and environment, we acknowledge the efforts of our customers and front-line staff in improving our portfolio performance. This is a result of the proactive manner in which FCC works with customers facing uncertain situations.

Market risk

Treasury manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by FCC's Board of Directors. Market risk management policies are approved and regularly reviewed by FCC's Asset/Liability Committee (ALCO) and the Board. The Treasury division is responsible for implementing market risk management directives and reports monthly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is to avoid exposure to foreign exchange rate risk, and to ensure all foreign currency borrowings are fully hedged at the time of issuance.

INTEREST RATE RISK

FCC is exposed to interest rate risk (IRR) as a result of a mismatch or gap between assets, liabilities and off-balance sheet instruments because of different renewal and/or re-pricing dates. IRR is the potential impact of changes in interest rates on FCC's earnings and economic value. Exposure to IRR is monitored and managed using an asset/liability model so as to avoid material adverse impacts.

Asset/liability management

FCC manages IRR exposures with an asset/liability model. The model simulates changes in net interest income (NII) and market value portfolio equity (MVPE) for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2002, an immediate two per cent increase (decrease) in interest rates across all maturities would affect NII and MVPE as follows:

	2% increase	2% decrease
	$ millions	
NII variability	16.7	(19.7)
Economic value variability (MVPE)	(46.6)	38.7

FCC is currently within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

The Treasury division uses derivative financial instruments, primarily swaps and options to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative financial instruments using the dollars-at-risk methodology. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO, FCC's Board of Directors and the Department of Finance.

Liquidity risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – cash and marketable securities equal to $350 million were on hand at March 31, 2002 (March 31, 2001 – $302 million). ALCO and the Board of Directors have established an investment/liquidity policy that sets minimum credit ratings for short and long-term marketable securities as well as limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and European commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and
- access to $10 million bank operating line of credit and a $50 million revolving credit facility.

Outlook 2002-03 - Risk

- Continue to enhance the Integrated Risk Management framework.
- Continue to refine the internal risk-rating system.
- Enhance market risk policies.

Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the valuation of real estate acquired in settlement of loans and the provision for employee future benefits, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, a committee which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan

John J. Ryan
President and
Chief Executive Officer

Moyez Somani

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 9, 2002

Canada

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the by-laws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 9, 2002

As at March 31 *(thousands of dollars)*

		2002		2001
Assets				
Cash and short-term investments (Note 3)	$	**349,560**	$	302,261
Accounts receivable and other accrued assets		**84,531**		45,187
Loans receivable – net (Notes 4 and 5)		**7,418,455**		6,638,344
Real estate acquired in settlement of loans (Note 6)		**10,113**		25,118
Equipment and leasehold improvements (Note 7)		**22,006**		15,521
Other assets (Notes 9 and 11)		**–**		152,866
	$	**7,884,665**	$	7,179,297
Liabilities				
Accounts payable and accrued liabilities	$	**21,950**	$	40,072
Accrued interest on borrowings		**96,423**		131,831
		118,373		171,903
Borrowings (Note 8)				
Short-term debt		**2,050,957**		1,893,450
Long-term debt		**4,948,182**		4,260,487
		6,999,139		6,153,937
Other liabilities and deferred fees		**21,215**		20,880
		7,138,727		6,346,720
Equity				
Capital (Note 1)		**507,725**		507,725
Retained earnings		**238,213**		324,852
		745,938		832,577
	$	**7,884,665**	$	7,179,297

Commitments and contingent liabilities (Note 10)

The accompanying notes are an integral part of the financial statements.

Approved:

Rosemary Davis

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

For the years ended March 31 *(thousands of dollars)*

	2002	2001
Interest Income		
Loans receivable	$ 527,616	$ 524,562
Investment income	17,266	23,984
	544,882	548,546
Interest expense		
Short-term debt	79,727	83,564
Long-term debt	263,981	300,482
Net interest income	201,174	164,500
Provision for credit losses (Note 5)	45,500	40,200
Net interest income after provision for credit losses	155,674	124,300
Lease and Real Estate Income		
Lease and other revenue	6,416	26,335
Operating expenses	467	1,065
Interest expense	547	2,048
Net lease and real estate income	5,402	23,222
Other Income	9,313	8,226
Income before Administration Expenses	170,389	155,748
Administration expenses	101,616	94,509
Income before Taxes	68,773	61,239
Current income taxes (Note 9)	1,885	2,206
Future income taxes (Note 9)	25,625	27,436
Income taxes	27,510	29,642
Net Income	41,263	31,597
Retained earnings, beginning of year	324,852	293,255
Dividend (Note 1)	(754)	–
Adjustment for future income taxes (Note 9)	(127,148)	–
Retained Earnings, end of year	$ 238,213	$ 324,852

The accompanying notes are an integral part of the financial statements.

For the years ended March 31 *(thousands of dollars)*

	2002	2001
Operating Activities		
Net income	$ 41,263	$ 31,597
Items not involving cash		
Future income taxes (Note 9)	25,625	27,436
Provision for credit losses (Note 5)	45,500	40,200
Amortization of bond premiums/discounts	36,772	36,236
Change in accrued interest receivable	8,071	32,802
Change in accrued interest payable	(24,498)	(46,438)
Other	(54,739)	15,888
Cash provided by operating activities	77,994	137,721
Investing Activities		
Long-term investments	–	53,404
Loans receivable disbursed	(2,293,800)	(1,776,200)
Loans receivable repaid	1,459,797	1,159,157
Change in real estate held (Note 6)	15,005	39,737
Other	(11,649)	(9,899)
Cash used in investing activities	(830,647)	(533,801)
Financing Activities		
Long-term debt repaid to Canada	(578,491)	(226,113)
Long-term debt from capital markets	2,078,122	567,154
Long-term debt repaid to capital markets	(848,708)	(814,983)
Change in short-term debt	149,783	863,515
Dividend paid	(754)	–
Cash provided by financing activities	799,952	389,573
Increase(decrease) in cash and short-term investments	47,299	(6,507)
Cash and short-term investments, beginning of year	302,261	308,768
Cash and short-term investments, end of year	$ 349,560	$ 302,261

The accompanying notes are an integral part of the financial statements.

1. The corporation

(A) AUTHORITY AND OBJECTIVES

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues Farm Credit Canada with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new Act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. Additionally, the corporation delivers specific programs for the Government of Canada on a cost-recovery basis.

(B) CAPITAL

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2002, capital payments received from the Government of Canada amounted to $1,168.3 million (2001 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2001 – $1,175.0 million).

(C) DIVIDEND

On May 30, 2001, the corporation's Board of Directors declared a dividend in the amount of $0.8 million which was paid September 7, 2001, to the corporation's sole shareholder – the Government of Canada.

(D) LIMITS ON BORROWING

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2002, the corporation's total liabilities were 9.6 times the equity of $745.9 million (2001 – 7.6 times the equity of $832.6 million).

2. Significant accounting policies

(A) INVESTMENTS

Investments are included in cash and short-term investments on the Balance Sheet. Interest income, amortization of premiums and discounts, and write-downs to market value on investments are included in investment income.

Short-term investments are acquired primarily for the purposes of liquidity and are intended to be held for less than one year. Short-term investments are carried at cost. However, where the market value has declined significantly, short-term investments are written down to market value.

(B) LOANS RECEIVABLE

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

(C) ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single-industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement of funds to the borrower.

In determining the allowance for credit losses, management segregates credit losses into three components; specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the internal criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan-by-loan basis.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions that have occurred, but have not yet manifested themselves as observable deterioration in credit quality in specific loans.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

(D) REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

Real estate, whether held for the production of income through leasing or held for sale, is initially recorded at the lower of the recorded investment in the foreclosed loan and the fair value of the underlying security at the time of acquisition. The fair value of the security is the amount which could be realized in an arm's-length disposition considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower.

Subsequent to acquisition, real estate leased for the production of income is carried at the value recorded on acquisition and is not written down for declines in the estimated fair value unless they are significant and permanent.

The carrying value of real estate held for sale is adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition.

Lease and other revenues from real estate are recorded when earned. Recoveries arising from the disposal of real estate are recognized when title to the property passes to the purchaser. These recoveries are included as a component of lease and other revenue.

(E) EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term

(F) TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses are reported net of the exchange gains and losses from currency exchange agreements. These amounts are included as a component of interest income or expense.

(G) LONG-TERM DEBT

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Interest settlement amounts for debt with bond or equity index-linked interest are estimated using the related index level as at the balance sheet date and are included in accrued interest. Changes in the estimated settlement amounts during the year are included as a component of interest income or expense.

(H) DERIVATIVE FINANCIAL INSTRUMENTS

In order to manage its exposure to currency and interest rate risks, the corporation uses various types of derivative financial instruments such as currency, interest rate, bond and equity index-linked swaps, forward rate agreements and interest rate options. These instruments include contracts designated as hedges as well as asset/liability management contracts which alter the corporation's overall interest rate profile. The corporation does not use derivative financial instruments for speculative purposes.

Currency exchange agreements

Amounts receivable or payable under currency exchange agreements are disclosed separately from the related foreign currency denominated loans receivable or debt and are translated into Canadian dollars at rates prevailing on the balance sheet date. The translated amounts are disclosed net of any amounts payable or receivable in Canadian dollars under these contracts. The net balance is reported as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Currency exchange gains and losses arising from currency exchange agreements are included in income as a component of interest income or expense. The cost of these agreements is amortized on a straight-line basis over the life of the contract and the amortization is reflected in interest income or expense. The unamortized balance is included as a component of accounts receivable and other accrued assets or other liabilities and deferred fees.

Interest rate agreements

Periodic payments arising under swap and forward contracts are accounted for on an accrual basis with the accrued interest receivable and payable recorded, as a component of accounts receivable and other accrued assets and accounts payable and accrued liabilities respectively.

A premium is paid to purchase an option contract. If the option is exercised, the premium is amortized on a straight-line basis over the life of the underlying instrument and reported as an adjustment to interest expense. If not exercised, the premium is recognized at the time the contract expires and reported as an adjustment to interest expense. Gains realized upon exercising an interest rate option are deferred and amortized to interest expense over the life of the hedged position.

(I) EMPLOYEE FUTURE BENEFITS

Pension and post-retirement benefits

The corporation accrues its obligations under employee benefit plans including pension plans and post-retirement plans other than pensions and the related costs, net of plan assets. The corporation has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit cost method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and
- for the purpose of calculating the expected return on plan assets, those assets are valued at market value.

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

Actuarial valuations of the pension plans are made periodically for accounting purposes based on the market-related discount rate. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

The corporation provides to eligible retired employees certain health care benefits, life insurance coverage and coverage of provincial health care premiums for Alberta and British Columbia.

Post-employment benefits

The corporation accrues its obligations for post-employment benefits. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on services.

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

(J) INCOME TAXES

The corporation follows the asset and liability method of accounting for income taxes. Future tax assets and liabilities are recognized according to the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(K) USE OF ESTIMATES

The preparation of the corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the valuation of real estate acquired in settlement of loans, and the provision for employee future benefits. Actual results could differ from those estimates.

3. Cash and short-term investments

(thousands of dollars)	*Effective interest rate (%)*		2002		2001
Cash		$	**19,418**	$	24,430
Short-term investments	1.95 – 4.54		**326,947**		276,463
Accrued interest			**3,195**		1,368
		$	**349,560**	$	302,261
Short-term investments consist of instruments with maturities of less than one year, issued by:					
The Government of Canada, its agencies and Crowns		$	**185,601**	$	88,665
Other			**141,346**		187,798
		$	**326,947**	$	276,463

Other investments consist of short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2002, the largest total investment in any one institution was $64.8 million (2001 – $59.7 million).

The weighted average term-to-maturity of the short-term investments was 28 days (2001 – 73 days).

4. Loans receivable

(thousands of dollars)	Stated interest rate (%)		2002		2001
Principal amounts due, secured by:					
Mortgages	3.150 – 14.000	$	**6,595,460**	$	5,852,024
Chattels	3.000 – 13.400		**863,913**		792,222
Notes	3.950 – 11.375		**43,387**		28,654
			7,502,760		6,672,900
Accrued interest and fees, net of payments held			**85,397**		89,250
			7,588,157		6,762,150
Recorded investment in impaired loans, secured by:					
Mortgages			**119,050**		136,275
Chattels			**8,196**		8,614
Notes			**390**		555
			127,636		145,444
Total loans receivable			**7,715,793**		6,907,594
Less: Allowance for credit losses (Note 5)			**(297,338)**		(269,250)
		$	**7,418,455**	$	6,638,344
Principal amounts (excluding impaired loans) due:					
Within 1 year		$	**2,030,486**	$	1,499,447
1 - 5 years			**4,939,277**		4,530,250
Over 5 years			**532,997**		643,203
		$	**7,502,760**	$	6,672,900

Management estimates that annually, over the next three years, approximately 8.3% (2001 – approximately 6.4%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2002, $25.1 million (2001 – $11.4 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

5. Allowance for credit losses

(thousands of dollars)		2002		2001
Balance, beginning of year	$	269,250	$	249,715
Write-offs, net of recoveries		(17,412)		(20,665)
Provision for credit losses		45,500		40,200
Balance, end of year	$	297,338	$	269,250
Specific allowance	$	39,688	$	44,671
General allocated and unallocated allowance		257,650		224,579
Balance, end of year	$	297,338	$	269,250

As at March 31, 2002, the total recorded investment in loans receivable against which a specific allowance has been identified was $127.6 million (2001 – $145.4 million). The general allowance was established against the remaining $7,588.1 million (2001 – $6,762.1 million) investment in loans receivable.

6. Real estate acquired in settlement of loans

(thousands of dollars)		2002		2001
Balance, beginning of year	$	25,118	$	64,855
Acquisitions		4,619		4,693
Disposals		(19,624)		(44,430)
Balance, end of year	$	10,113	$	25,118
Real estate held for sale	$	9,218	$	21,099
Real estate under long-term lease maturing:				
Within 1 year		808		123
From 1 - 2 years		87		2,901
From 2 - 3 years		–		995
		895		4,019
	$	10,113	$	25,118

(thousands of dollars)		2002		2001
Future expected lease receipts, using current lease rates, due:				
Within 1 year	$	20	$	205
1 - 5 years		6		45
	$	26	$	250

Included in real estate held for sale is property which, as of March 31, 2002, has been sold on a conditional basis. This property has a recorded value of $6.0 million (2001 – $11.1 million).

7. Equipment and leasehold improvements

(thousands of dollars)				2002	2001
		Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$	9,030	$ 4,510	$ **4,520**	$ 4,199
Computer equipment and software		30,830	17,761	**13,069**	7,877
Leasehold improvements		9,414	4,997	**4,417**	3,445
	$	49,274	$ 27,268	$ **22,006**	$ 15,521

Included in administration expenses was $6.8 million (2001 – $5.3 million) of amortization of equipment and leasehold improvements.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

(A) SHORT-TERM DEBT

Short-term debt consists of promissory notes payable within one year totalling $2,051.0 million (2001 – $1,893.4 million). The effective interest rate on these notes ranges from 1.72% to 4.45% (2001 – 4.35% to 5.92%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 13, 2001, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2002, there were no draws on this line of credit.

Also, on December 18, 2001, the corporation renewed a line of credit agreement providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2002, the outstanding balance on this line of credit was $0.3 million.

(B) LONG-TERM DEBT

(thousands of dollars)	Stated interest rate (%)	2002	2001
Debt from Government of Canada, secured by notes		$ –	$ 578,491
Debt from capital markets, secured by notes payable in:			
Canadian dollars	0.0 – 9.0	**4,901,371**	3,620,046
Japanese yen (¥1.2 billion)	2.0	**14,423**	24,982
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
The Hong Kong Exchange Index		–	4,580
The Euro Top 100 Index		**32,388**	32,388
		$ **4,948,182**	$ 4,260,487

Debt with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars.

Long-term debt maturities are as follows:

(thousands of dollars)	2002	2001
Amounts due:		
Within 1 year	$ 1,496,153	$ 1,358,247
From 1 - 2 years	1,439,238	1,023,501
From 2 - 3 years	809,561	730,300
From 3 - 4 years	688,240	509,048
From 4 - 5 years	203,688	263,770
Over 5 years	311,302	375,621
	$ 4,948,182	$ 4,260,487

Included in long-term debt is $760.5 million (2001 – $75.0 million) of instruments extendable beyond their original due dates and $204.7 million (2001 – $158.1 million) of callable debt. The redemption of these instruments is controllable by the corporation.

9. Income taxes

During the fiscal 2001 year, the corporation was in discussion with the Government of Canada with respect to a request for tax-exemption. Prior to the date of completion of the fiscal 2001 year-end financial statements, the discussion around tax-exemption was not sufficiently advanced to provide certainty of its eventuality. As a result, the corporation retroactively adopted the accounting recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3465, *Income Taxes* in its March 31, 2001 financial statements. The future tax asset was $152.8 million at March 31, 2001.

In the December 10, 2001 Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences and loss carry-forwards, previously recognized in the financial statements, are no longer available to the corporation as deductions against future tax liabilities. As a result, the future income tax asset no longer has value to the corporation and has been removed through retained earnings at March 31, 2002 in the amount of $127.1 million.

Components of the future income tax asset:

(thousands of dollars)	2002	2001
Allowance for credit losses	$ 54,928	$ 82,196
Post retirement benefits other than pensions	5,116	4,687
Equipment and leasehold improvements	20,850	18,647
Non-capital loss carry-forwards	46,254	46,976
Other	–	267
Net future income tax asset	$ 127,148	$ 152,773

Current income taxes recorded in these financial statements represent capital taxes under Part I.3 of the *Income Tax Act*. Part I.3 tax is applicable to corporations with taxable capital in excess of $10 million. Current taxes are not applicable in future years due to the tax-exemption noted above.

The following is a reconciliation of income taxes expense:

(thousands of dollars)		2002	2001
Income taxes at statutory rate of 37.96% (2001 – 39.26%)	$	26,106	$ 24,042
Retroactive adoption of section 3461		–	3,316
Large corporations tax		1,885	2,206
Non-deductible expenses		245	258
Other		(726)	(180)
Income taxes expense	$	27,510	$ 29,642

10. Commitments and contingent liabilities

(A) LONG-TERM COMMITMENTS FOR LEASES

Future minimum payments by fiscal year on operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)		
Within 1 year	$	6,169
From 1 - 2 years		5,144
From 2 - 3 years		4,418
From 3 - 4 years		3,587
From 4 - 5 years		3,031
Over 5 years		18,589
	$	40,938

(B) OTHER COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its business, the corporation enters into various commitments and contracts. As of March 31, 2002, the corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $16.7 million (2001 – $16.2 million). In the event of a call upon the guarantees disclosed above, the corporation has recourse against its customers.

As at March 31, 2002, loans to farmers and agribusiness approved but undisbursed amounted to $276.6 million (2001 – $101.8 million). These loans were approved at an average interest rate of 5.15% (2001 – 7.74%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2002.

11. Employee future benefits

The following table presents information related to the corporation's defined benefit plans including amounts recorded on the Balance Sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2001.

Change in accrued benefit obligation:

(thousands of dollars)	**2002** Pension benefits	2001 Pension benefits	**2002** Other benefits	2001 Other benefits
Accrued benefit obligation, beginning of year	$ **2,993**	$ –	$ **12,956**	$ 12,045
Current service cost	**4,873**	1,847	**818**	470
Interest cost	**3,019**	105	**966**	615
Plan participants' contributions	**1,690**	956	–	–
Benefits paid	**(336)**	(69)	**(488)**	(452)
Net transfer in*	**102,551**	–	–	–
Actuarial (gain)/loss	**(12,068)**	154	**1,403**	278
Accrued benefit obligation, at measurement date	$ **102,722**	$ 2,993	$ **15,655**	$ 12,956

Change in plan assets:

(thousands of dollars)	**2002** Pension benefits	2001 Pension benefits	**2002** Other benefits	2001 Other benefits
Fair value of plan assets, beginning of year	$ **2,898**	$ –	$ –	$ –
Actual return on plan assets	**2,353**	25	–	–
Employer contributions	**4,036**	1,986	–	–
Plan participants' contributions	**1,690**	956	–	–
Benefits paid	**(336)**	(69)	–	–
Net transfer in*	**102,551**	–	–	–
Fair value of plan assets, at measurement date	$ **113,192**	$ 2,898	$ –	$ –

Funded status at measurement date:

(thousands of dollars)	**2002** Pension benefits	2001 Pension benefits	**2002** Other benefits	2001 Other benefits
Deficiency (surplus) of plan assets at fair value over projected plan benefits	$ **(10,470)**	$ 95	$ **15,655**	$ 12,956
Unrecognized net actuarial gain (losses)	**11,157**	(188)	**(1,682)**	(278)
Accrued benefit (asset) liability	$ **687**	$ (93)	$ **13,973**	$ 12,678

* As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the *Public Service Superannuation Act* (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada which provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the full amount of the transfer has been recognized on an estimated basis at March 31, 2002.

The accrued benefit asset is included in other assets on the Balance Sheet. The accrued benefit liability is included in other liabilities and deferred fees on the Balance Sheet.

The corporation's expense with respect to employee future benefits is:

(thousands of dollars)	2002	2001	2002	2001
	Pension benefits	Pension benefits	**Other benefits**	Other benefits
Current service cost	$ **4,873**	$ 1,847	$ **818**	$ 470
Interest cost	**3,019**	105	**966**	615
Expected return on plan assets	**(3,077)**	(58)	–	–
Net benefit plan expense	**4,815**	1,894	**1,784**	1,085
Employer contributions to defined contribution plan	**1,341**	1,336	–	–
Employer contributions to PSSA plan	–	2,485	–	–
Accrued contributions to RCA plan	–	204	–	–
Total benefit expense included in the Statement of Operations and Retained Earnings	$ **6,156**	$ 5,919	$ **1,784**	$ 1,085

The amount of expense included in the Statement of Operations and Retained Earnings represents 12 months to March 31, 2002 (2001 – nine months) for the defined contribution plan, and 12 months (2001 – six months) for the defined benefit plans to December 31, 2001, the measurement date.

The weighted-average assumptions at the measurement date used in the calculation of the corporation's benefit obligation are shown in the following table:

	2002	2002	2002
	Pension benefits	**Post-retirement benefits**	**Post-employment benefits**
Discount rate at the beginning of the period	**7.25%**	**7.40%**	**6.30%**
Discount rate at the end of the period	**7.00%**	**7.00%**	**6.25%**
Expected long-term rate of return on plan assets	**8.00%**	**N/A**	**N/A**
Rate of compensation increase	**4.00%**	**4.00%**	**4.00%**

	2001	2001	2001
	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate at the beginning of the period	7.50%	7.50%	6.90%
Discount rate at the end of the period	7.25%	7.40%	6.30%
Expected long-term rate of return on plan assets	8.00%	N/A	N/A
Rate of compensation increase	6.60%	4.00%	4.00%

For measurement purposes, a 9.00% (2001 – 9.00%) increase in the per capita cost of covered hospital costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil 10 years from the current year (2001 – to nil 10 years from the current year) and remain at that level thereafter. For drug costs, a 10.00% (2001 – 9.00%) increase in the per capita cost was assumed to decrease gradually to 5.00% 10 years from the current year (2001 – to 5.00% 10 years from the current year) and remain at that level thereafter.

12. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, for investment management purposes, and to reduce funding costs. Interest rate and currency swaps are used to manage interest rate risk and to offset foreign currency risk on foreign currency borrowings. Interest rate options are purchased to hedge options embedded in the corporation's loan products as well as to reduce the risk arising from loan rate guarantees.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligation to the corporation. A positive replacement cost indicates the corporation's exposure to counterparty credit risk. The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Additionally, International Swaps and Derivatives Association Inc. (ISDA) documents have downgrade and collateral provisions to reduce counterparty credit risk. As a result, the corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2002, was $742.7 million (2001 – $330.5 million) and the largest positive replacement cost of contracts with any institution as at March 31, 2002, was $7.0 million (2001 – $9.8 million).

The remaining terms to maturity of the contractual (notional) Canadian dollar principal amounts of derivative financial instruments outstanding as at March 31, 2002 were:

(thousands of dollars)

2002 Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	Total	Positive replacement cost
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 100,000	$ 346,000	$ 100,000	$ 546,000	$ 320
Fixed	Floating	595,667	839,500	–	1,435,167	6,107
Fixed	Fixed	20,000	–	–	20,000	4,570
Floating	Floating	–	857	–	857	24
Equity index-linked	Floating	16,688	15,700	–	32,388	328
Bond forward		25,000	–	–	25,000	–
Option		5,000	–	–	5,000	–
		762,355	1,202,057	100,000	2,064,412	11,349
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	124,820	–	–	124,820	4,992
CDN fixed	USD floating	–	–	–	–	–
		124,820	–	–	124,820	4,992
Total		$ 887,175	$ 1,202,057	$ 100,000	$2,189,232	$ 16,341

(thousands of dollars)

2001 Remaining term to maturity			Within 1 year		1 to 5 years		Over 5 years		Total		Positive replacement cost
Interest rate contracts:											
Swap contracts											
Receive	*Pay*										
Floating	Fixed	$	84,000	$	345,000	$	–	$	429,000	$	309
Fixed	Floating		336,623		–		–		336,623		7,487
Fixed	Fixed		20,000		40,000		–		60,000		7,871
Floating	Floating		–		–		857		857		22
Equity index-linked	Floating		4,580		32,388		–		36,968		1,470
			445,203		417,388		857		863,448		17,159
Foreign exchange contracts:											
Cross-currency swaps											
Receive	*Pay*										
CDN fixed	USD fixed		109,747		–		–		109,747		8,275
CDN fixed	USD floating		–		1,875		–		1,875		–
			109,747		1,875		–		111,622		8,275
Total		$	554,950	$	419,263	$	857	$	975,070	$	25,434

Included in derivative financial instruments is $760.5 million (2001 – $75.0 million) of instruments extendable beyond their original due dates and $204.7 million (2001 – $158.1 million) of callable instruments. The redemption of these instruments is controllable by the corporation.

13. Interest rate risk

Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate financial instruments and on the fair value of fixed-rate financial instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's financial instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

Floating-rate loans receivable are linked to the bank prime rate and re-price with changes in the rate.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

2002 Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Short-term investments	$ 330,142	–	–	$ 330,142
Average yield	2.42%	–	–	2.42%
Loans receivable*				
Fixed-rate	$ 1,207,612	2,994,768	420,273	$ 4,622,653
Average yield	7.41%	7.86%	8.28%	7.78%
Floating-rate	$ 845,985	2,000,728	118,791	$ 2,965,504
Average yield	4.64%	4.66%	4.57%	4.65%
Short-term debt	$ 2,059,634	–	–	$ 2,059,634
Average yield	2.25%	–	–	2.25%
Long-term debt	$ 1,522,684	3,196,421	316,822	$ 5,035,927
Average yield	4.71%	4.65%	4.43%	4.66%

(thousands of dollars)

2001 Remaining term to re-pricing or maturity date	Within 1 year	1 to 5 years	Over 5 years	Total carrying value
Short-term investments	$ 277,831	–	–	$ 277,831
Average yield	5.06%	–	–	5.06%
Loans receivable*				
Fixed-rate	$ 1,219,434	3,178,398	535,538	$ 4,933,370
Average yield	8.01%	8.02%	8.41%	8.06%
Floating-rate	$ 300,069	1,412,443	116,268	$ 1,828,780
Average yield	7.65%	7.78%	7.83%	7.76%
Short-term debt	$ 1,909,852	–	–	$ 1,909,852
Average yield	5.13%	–	–	5.13%
Long-term debt	$ 1,397,634	2,595,032	385,791	$ 4,378,457
Average yield	6.03%	6.35%	5.77%	6.20%

* Loans receivable excludes impaired loans.

14. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date.

(thousands of dollars)	2002 Carrying value	2002 Estimated fair value	2001 Carrying value	2001 Estimated fair value
Assets				
Cash and short-term investments	$ 349,560	$ 349,560	$ 302,261	$ 302,261
Accounts receivable and other accrued assets	84,531	84,531	45,187	45,187
Loans receivable	7,418,455	7,523,031	6,638,344	6,839,570
Liabilities				
Accounts payable and accrued liabilities	$ 21,950	$ 21,950	$ 40,072	$ 40,072
Accrued interest on borrowings	96,423	96,423	131,831	131,831
Short-term debt	2,050,957	2,050,957	1,893,450	1,893,450
Long-term debt	4,948,182	4,967,920	4,260,487	4,340,410

(thousands of dollars)	2002 Notional amount	2002 Net fair value	2001 Notional amount	2001 Net fair value
Derivatives				
Interest rate contracts	$ 2,064,412	$ (27,042)	$ 863,448	$ 3,823
Foreign currency contracts	124,820	4,992	111,622	8,198

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and short-term investments, accounts receivable and other accrued assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

15. Segmented information

The corporation is engaged in two distinct business segments: agricultural lending and real estate management. Both operate exclusively in Canada. Details regarding these segments are readily available in the corporation's financial statements.

16. Comparative figures

Certain 2001 comparative figures have been restated to conform with the current year presentation.

From left to right: *Front row* Janet Wightman, John Ryan, Rick Hoffman, Greg Honey. *Middle row* Moyez Somani, Kellie Garrett, Marshall Stachniak, André Tétreault. *Top row* Don Stevens, Nelson Tkatch, Paul MacDonald, James Taylor, Greg Stewart and Terry Kremeniuk.

Forward thinking. Challenging expectations.

FCC's strength stems from its people's specialized agricultural expertise. The Senior Management Team (SMT) levers this strength through leadership that ensures that FCC continues to be a relevant and innovative contributor to the success of the industry.

With unique and diverse professional experience, SMT develops and implements the corporate strategic direction. In addition to management responsibilities, SMT advises the President and CEO, the Executive Committee and the Board of Directors. Executive Committee is a subset of the SMT and the senior decision-making authority of the corporation. This committee acts on broad strategic direction and establishes corporate priorities. Executive Committee comprises the President and CEO, Chief Operating Officer and Chief Financial Officer.

Working as one leadership team, every member of the SMT continuously enhances their own leadership skills through professional development and evaluation. They actively encourage the development of all FCC employees, challenging them to be innovative, forward thinking and focused on FCC customers and the agriculture industry.

The SMT leads by example, following the guidelines of the *Financial Administration Act* and exercising care, skill and diligence in their decision-making and business activities. In so doing, they also respect the Employee Conduct and Ethics Policy, and adhere to the highest ethical standards of business, professional and personal conduct.

Taking responsibility to meet industry challenges

In 2001, the *Farm Credit Canada Act* gave the corporation new powers and responsibilities for meeting the needs of its customers and the industry. Evolving to develop new areas of business and to continue providing the highest level of customer service, FCC created two new key SMT positions. In 2001-02, Paul MacDonald was hired as Vice-President, Complementary Services and Channel Development. Also new to the team is James Taylor, Vice-President, Venture Capital.

Continued on page 69

SENIOR MANAGEMENT PROFILES

JOHN J. RYAN
President & CEO. Responsible for the strategic leadership of FCC and reporting to the Board of Directors, John has been President and CEO since 1997. He possesses 25 years of financial management experience, previously as Executive VP & Chief Operating Officer of the Business Development Bank of Canada (BDC). A graduate of Harvard Business School's Advanced Management Program, John also holds a BBA (Bachelor of Business Administration) from St. Francis Xavier University. Committed to the community, he is a member of the Board of Trustees of the Canadian Athletic Foundation, member of the St. Francis Xavier Millennium project, and member of the Adult Learning Centre Foundation Board. He is Chair of the Hospitals of Regina Foundation, and Chair of the Regina United Way 2001 Leadership Campaign. He also led the CEO Challenge for the 2001 Habitat for Humanity.

MOYEZ SOMANI, CMA, MBA
EVP & Chief Financial Officer. With overall responsibility for FCC's finance function including Treasury, Controller, Risk Management, Audit and Business Process Reengineering Divisions, Moyez has over 20 years of senior management experience in the financial services sector. He is involved with several Boards including Mind's Eye Pictures, Society of Management Accountants of Saskatchewan, Financial Executives International (Regina Chapter), AgriFood Equity Fund and the Saskatchewan Science Centre.

JANET WIGHTMAN
EVP & Chief Operating Officer. Leading all aspects of FCC's national lending operations, Janet is responsible for farm financing, agribusiness, channel development, alliances, venture capital, marketing, and development of new products and services. Janet has 22 years of experience in administration, human resources, organizational transformation and operations management and is a member of the SaskPower Board of Directors.

- Continued on page 69

RECOGNIZING AN *outstanding* CONTRIBUTION TO *agriculture.*

Louise Neveu, FCC's former Executive Vice-President and Chief Knowledge Officer, retired from FCC in 2002, leaving a legacy that will continue to influence FCC's values and commitment to agriculture.

Louise's passion for lifelong learning and tremendous energy led her career from journalism to communications, human resources, administration and eventually operations. She began her career with FCC in 1975 and, after serving in positions of increasing responsibility, became Executive Vice-President and Chief Operating Officer in 1998. She also gained valuable experience benefiting FCC by working in executive positions at Agriculture and Agri-Food Canada, Veterans Affairs Canada and Saskatchewan Wheat Pool.

Most recently, Louise championed knowledge management – one of the first Canadian executives to recognize its potential to enhance customer service. As Chief Knowledge Officer in 2001-02, she set best practice standards for the development of agricultural sector knowledge that will ultimately benefit FCC customers and the industry.

Louise's passion for excellence led her to challenge colleagues to constantly strive for excellence. Her influence will be felt for many years to come. She has retained a directorship position at the George Morris Centre and now lives on Vancouver Island with her husband.

Continued from page 67

Compensation and decision making

All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives, exept the CEO, receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2001-02, the salary range for the President and CEO was set at $180,100 to $221,100. The salary range of the Executive Vice-Presidents was from $154,605 to $279,210. The range for Vice-Presidents was from $114,825 to $183,600. Total cash compensation paid to SMT was $2,794,425.

SENIOR MANAGEMENT PROFILES – Continued from page 68

KELLIE GARRETT, ABC, BA

VP, Strategy, Knowledge & Communication. Responsible for corporate strategy, knowledge management, corporate communication and brand management, Kellie is an Accredited Business Communicator (ABC) with a B.A. from Carleton University. Previously responsible for marketing and product development, she is active on several boards.

RICK HOFFMAN, CMA

VP & Controller. Responsible for corporate accounting, financial reporting and FCC's Loan Administration Centres, Rick has more than 15 years of financial and management experience in the agriculture sector. He is a Certified Management Accountant and a member of Financial Executives International.

GREG HONEY, B.Ed.

VP, HR & Administration. Responsible for all aspects of Human Resources and national administration services, Greg possesses more than 20 years of Human Resources experience. He is a member of the Conference Board Human Resources Executive Committee (West) and has a B.Ed from the University of Regina.

TERRY KREMENIUK, MBA, P.AG

VP, Aboriginal Business (Retired April 30, 2002). Responsible for developing and implementing FCC's Aboriginal business strategy, Terry spent half his 30-year career providing leadership in the research, policy, and corporate planning areas. The other half of his career focused on farm finance, alliances and agribusiness. Terry earned an MBA from University of BC and a B.Sc. (Agriculture) from the University of Alberta.

PAUL MACDONALD, MA

VP, Complementary Services & Channel Development. Leading the development of new services and business channels, Paul is responsible for alliances, the FCC Customer Service Centre, complementary services and e-business. Formerly VP, Ipsos-Reid, Paul has an MA (Economics) from Queen's University and a B.Sc. from the University of P.E.I.

MARSHALL STACHNIAK, P.AG

VP, Corporate Audit & Business Process Reengineering. Responsible for internal audit, measurement and control and reengineering of business processes, Marshall has served FCC for 30 years, largely in the farm finance and alliances area. He has a B.Sc. (Agriculture) from the University of Alberta and is a professional agrologist.

DON STEVENS, CFA, MBA

VP & Treasurer. Responsible for funding of FCC's portfolio and managing market risk, Don has extensive treasury and finance experience, most recently as FCC's Controller. A Chartered Financial Analyst, he holds an MBA from York University and a B.Eng. from Carleton University.

GREG STEWART, P. AG

SVP, National Lending Operations. Responsible for national sales, Greg has extensive experience in operations, farm financing, agribusiness and risk management. A professional agrologist, Greg holds a B.Sc. from the University of Manitoba.

JAMES TAYLOR, MBA

VP, Venture Capital. Responsible for establishing and leading FCC's new Venture Capital division, Jim has proven experience in developing, pricing and managing debt and equity investments at the Bank of Montreal Capital Corp. and most recently as VP, Intergold Ltd. He holds an MBA from the University of Toronto.

ANDRÉ TÉTREAULT, CGA

VP, Risk Management. Responsible for FCC lending and risk policies, André has 26 years of accounting, audit and operations management experience with several Federal Crown corporations, including CMHC and is a Certified General Accountant.

NELSON TKATCH, B.COMM, B.SC.

VP, Information Technology. Responsible for FCC's information technology direction and deployment across our various functions and channels, Nelson has over 20 years of IT experience including senior leadership appointments across a variety of industry sectors including financial services. He has a B.Comm. and B.Sc. from McGill University.

FCC's Board of Directors is responsible for developing and approving the strategic direction of the corporation. The Board works closely with the Senior Management Team to ensure that FCC continues to meet the needs of customers and is addressing the challenges of today's agriculture industry. The individual members of the Board bring agricultural, financial and governance expertise and a dedication to agriculture to their roles.

Rosemary Davis, Chair

Chair since June 20, 2000
Director since December 19, 1995

With over 20 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario. She is also an associate of Terra International and Director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. Ms. Davis is active on many local and provincial agricultural committees and associations. She is a Director on the Board of Loyalist College and is a member of: the Fertilizer Institute of Ontario, Fertilizer Use Committee; the Ontario Federation of Agriculture; and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings Counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists. She resides in Trenton, Ontario.

Rashpal Dhillon

Director since June 6, 1995

Mr. Dhillon is the President and Chief Executive Officer of Richberry Farms, a cranberry and blueberry operation based in Richmond, British Columbia. He is also General Partner and Chief Executive Officer of a second cranberry operation, Pitt Meadows Farms Ltd., and director/owner of the Richview Golf Centre. Mr. Dhillon has served as a Director/Secretary of the Richmond Farmers Institute and the B.C. Cranberry Marketing Board. He has also been a Director/Vice-President of the B.C. Blueberry Co-operative and of the Richmond Foundation. In his community, Mr. Dhillon serves as a Director for the Canadian National Institute for the Blind.

Robert M. Colpitts

Director since November 27, 2001

Residing in Fredericton, New Brunswick, Robert M. Colpitts has more than 30 years of experience in the agriculture industry. Formerly the Director, Animal Industry Branch, New Brunswick Department of Agriculture, he received the James Robb Award for Agrologist of the Year in 1997 and was inducted into the Canadian Hereford Honor Roll for outstanding service to the beef cattle industry in 1986. He holds a B.Sc. Agr. from McGill University (MacDonald College). Mr. Colpitts has made an important contribution to agriculture in New Brunswick through his leadership in several key agricultural organizations. Most notably, he served as Secretary-Treasurer, N.B. Fairs and Exhibition Association; Director, Maritime Beef Testing Society; member, New Brunswick Institute of Agrology; Director, Atlantic Winter Fair; and Secretary-Treasurer of both the N.B. Hereford Association and the N.B. Livestock Breeders Co-operative Ltd.

Warren Ellis

Director since April 4, 1995

Warren Ellis Produce, in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is also President of O'Leary Potato Packers Ltd, an operation that buys, packs and markets potatoes worldwide. In 1994, he was the Atlantic Region honouree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a Board member of the Western School Board and the P.E.I. Lending Authority and as Chairman of the O'Leary Community Sports Centre and the Potato Blossom Festival.

Donna Graham

Director since September 26, 2000

Ms. Graham is a managing partner of Graham Farms Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta. In the past, she has acted as an advisor on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. Ms. Graham is currently the Chair of Protocol for the Southern Alberta Summer Games. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province, and a National 4-H Award for her dedication to the 4-H movement.

Maurice Kraut

Acting Chair, Corporate Governance Committee
Director since April 13, 1999

A co-owner and operator of a cattle and grain farm enterprise, Mr. Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut also served successful terms as a Research Director for the Canada Grains Council and as Assistant Deputy Minister of Agriculture in Manitoba.

Eleanor M. Hart

Chair, Human Resources Committee
Board representative on FCC's joint Pension Committee
Director since May 2, 1995

A farm partner and owner of Lokoja Farms in Woodstock, Ontario, Ms. Hart's previous experience in the industry includes serving as a Director of the Oxford County Federation of Agriculture and as a member of the Agricultural Research Institute of Ontario. Ms. Hart is also a Past-President of the Ontario Home Economics Association and a member of the Canadian Home Economics Association (CHEA).

Marie-Andrée Mallette

Chair, Audit Committee
Director since June 16, 1995

Ms. Mallette operates a large-scale commercial crops and coloured beans operation in Quebec. A lawyer for 16 years, Ms. Mallette has served as the Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers, and has provided advisory services to exporting companies and agricultural operations seeking equity financing. Ms. Mallette is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association.

Joan Meyer

Director from January 11, 1995 to September 1996, reappointed on September 26, 2000.

Ms. Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Sask. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a Director on a variety of boards on the national, provincial and local level. Some of these include Canadian Lutheran World Relief, Canadian Foodgrains Bank, the Multicultural Council of Saskatchewan, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

Marilyn Marie Scott

Board representative of FCC's joint Pension Committee
Director since October 24, 1996

A partner in Scott & Weber Law Firm of Humboldt, Saskatchewan, Ms. Scott specializes in agriculture law, wills and estates. She is a member and past Director of Women Entrepreneurs of Saskatchewan and past Chairperson of their Humboldt & District Chapter. In addition, Ms. Scott is a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association.

John J. Ryan

Director since September 1, 1997

With more than 25 years of financial and managerial experience, Mr. Ryan has served FCC as President and Chief Executive Officer since September 1997. He is currently a member of the Board of Trustees of the Canadian Athletic Foundation, Chair of the Hospitals of Regina Foundation, member of St. Francis Xavier's Millennium project and is a member of the Adult Learning Centre Foundation Board. A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-Chair of the Regina 1999 United Way campaign, Chair for the 2000 Campaign and Chair for the 2001 Leadership Campaign. He also led the CEO Challenge for Habitat for Humanity in 1998 and 2001.

Germain Simard

Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was President of the Union des producteurs agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. Since then, Mr. Simard has served as Executive Vice-President of the Fédération des Agricotours du Québec and as President of their Saguenay-Lac Saint-Jean chapter. He is currently a member of the agri-food co-operative Nutrinor and of the Caisse populaire Desjardins.

FCC Board reflects gender equality

FCC strives to maintain diversity throughout its workforce and Board of Directors. FCC's Board includes representation from every region in Canada. Their expertise stems from diverse cultural and professional backgrounds. In addition, the Board maintains a gender balance that reflects the agricultural industry and customer demographics.

For these efforts, FCC was recognized in a March 27, 2002 *National Post* article: "Women gain 'slow and steady' ground in Canada's boardrooms." The article cites FCC as the fifth "best Canadian company with more than 35 per cent women directors." In addition to FCC's Chair, 50 per cent of the Board of Directors are women.

Board stewardship

The Board of Directors is responsible for overseeing FCC's management and business in the best interests of the corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in *Farm Credit Canada Act* and the *Financial Administration Act*.

The Board discharges its responsibilities directly and through the Audit, Corporate Governance and Human Resources Committees. As part of its overall stewardship, the Board:

- establishes and approves the strategic direction, corporate plan and budgets in co-operation with senior management;
- ensures that the principal business risks have been identified and that appropriate risk management systems are in place;
- conducts the annual CEO performance evaluation;
- ensures a management succession plan is in place; and
- ensures that information systems and practices meet the Board's needs for confidence in information integrity.

Strategic direction, mandate and public policy objectives

In 2001-02, changes to FCC's governing legislation were introduced and passed. FCC's mandate was expanded to allow the provision of a broader range of financial services and products to farming operations and agribusiness. FCC is now authorized to provide business management services and products. FCC also may acquire equity interests in agriculture-related operations and incorporate subsidiaries of the corporation.

In 2001, as a result of the new legislation, the corporation's English name changed to Farm Credit Canada from Farm Credit Corporation and the French to Financement agricole Canada from Société du crédit agricole.

As part of the strategic planning process, the Board regularly examines FCC's strategic business and public policy objectives. The Board also approves FCC's Corporate Plan, Annual Report and budget summaries.

Board composition

The Board of Directors is composed of 12 members including the Chair, President and Chief Executive Officer, and 10 directors. Eleven of the Directors, including the Chair, are independent of management and the Board has in place policies and procedures to ensure that Directors have the ability to exercise independent judgement with a view to the best interests of the corporation.

Director appointment and renewal

The Governor-in-Council appoints the Chair as well as the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and agribusiness operators from rural and small urban centres.

Approved Chair and Director profiles set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles assist in succession planning for Board members and serve as a frame of reference when the government selects new candidates. The Board also periodically assesses its own composition to ensure the appropriate mix of expertise and background to meet the strategic needs of the corporation.

Appointments

Robert Colpitts, from Fredericton, New Brunswick, was appointed as a Director on November 27, 2001, replacing Edward Clark, whose term expired.

Board education

Each member of the Board receives a detailed orientation briefing upon appointment and meets with the senior executives of the corporation in order to become fully acquainted with its business and affairs. Direct access to members of FCC senior management also provides a source for ongoing education and information.

Board members also participate in developmental activities, including attendance at educational seminars sponsored by the Conference Board of Canada and periodic sessions with governance experts. In particular, the Board engaged the services of leading Canadian corporate governance expert Patrick O'Callaghan of Patrick O'Callaghan & Associates to provide training on "Boards Which Add Value." As part of this training, Harold MacKay, QC, former Chair of the Taskforce on the Future of the Canadian Financial Services Sector and Lead Director of the Bank of Canada, shared his considerable experience in corporate governance. In addition, the Board attends regular briefing sessions on matters relevant to its members. The first of these sessions was held in March 2002 on the topic of financial reporting.

Loans where Directors may have a material interest

Knowledge of the agricultural industry is often a key attribute of FCC Board members. The Board recognizes that Directors who are drawn from the agricultural sector may, from time to time, become FCC customers.

As a matter of governance practice, the Board is not involved in the approval of any FCC loans, their terms, conditions or interest rates. A defined process to formally distance Directors from any involvement in a particular loan has been clearly set out by the Board Policy Governing Loans Where A Director Has A Material Interest, that was enhanced on December 6, 2000. The policy states that any such loan or material contract where a Director may have an interest shall be handled in an independent and arms-length fashion and that no advantage or preference shall be shown in relation to either.

In addition, the bylaws of the corporation, the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders provides that Directors must disclose any interest in, and refrain from voting or making representations with respect to any material contract with the corporation.

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis
Donna Graham
Joan Meyer
Maurice Kraut
Germain Simard

The Audit Committee, composed entirely of non-management Directors, oversees FCC's financial performance and reviews the corporation's financial and operational reporting systems, internal control systems, audit programs and integrated risk management processes. Recommendations are brought to the attention of the Board as required. This Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General, FCC's auditors.

During the 2001-02 fiscal year, the Audit Committee met five times and carried out its mandate in four key areas:

- approved the 2000-01 Financial Statements, Annual Report and quarterly financial results for fiscal year 2001-02;
- approved the 2000-01 annual corporate audit plan and all final audit reports issued, as well as the status of actions taken by management to address areas requiring improvement;
- approved Board and CEO expense reports for fiscal 2001-02; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2000-01, as well as the plan for the 2001-02 annual audit.

Additional results:

- The Committee approved a new Charter for the Committee. This Charter incorporates the recommendations of the Standing Committee on Public Accounts review of the December 2000 Report of the Auditor General of Canada (*Governance of Crown Corporations*). This Charter was received by the Board at the March 27, 2002, Board meeting; and
- The Office of the Auditor General (OAG) will be conducting its third Special Examination of FCC during 2002. In January 2002, the Audit Committee participated in a presentation from the Office of the Auditor General that provided an overview of the Special Examination Process. Preparation by the OAG's office is underway and the Special Examination audit plan was presented to the Audit Committee in May 2002.

Board Committees

Human Resources Committee

Chair: Eleanor M. Hart
Members: Rosemary Davis
John J. Ryan
Rashpal Dhillon
Warren Ellis
Marilyn Marie Scott
Joan Meyer

The Human Resources Committee's primary responsibility is to review all major FCC human resource policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on human resource development plans and succession plan frameworks for all management positions at the corporation and evaluates the performance of the Chief Executive Officer. It oversees the employment equity and official language policies of the corporation and the design, objectives and competitiveness of FCC's compensation plans. The Committee monitors the funding, performance and administration of the newly created Solstice pension program. The Committee also monitors the corporation's Human Resource Index survey of employee satisfaction and subsequent action plans.

During this fiscal year, the Human Resources Committee met five times and carried out the following activities:

- established the CEO's objectives for 2001-02 and evaluated performance for the 2000-01 fiscal year;
- examined the corporation's compensation policies and reviewed the annual market compensation survey to ensure appropriate and competitive remuneration for FCC employees;
- assessed the corporation's performance in the areas of official languages and employment equity;
- reviewed the 2001 Human Resource Index survey action plans and progress;
- monitored the final stages of the implementation of FCC's Solstice pension program, including the approval of a governance structure;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- began the process of reviewing and updating the Human Resources Committee Charter.

Corporate Governance Committee

Chair: Maurice Kraut*
Members: Rosemary Davis
John J. Ryan
Robert Colpitts
Marie-Andrée Mallette
Marilyn Marie Scott

The Corporate Governance Committee provides a focus on Board governance, as well as assesses corporate values and the elements that facilitate its effectiveness. The Committee:

- manages and recommends enhancements to the corporation's system for corporate governance;
- advises the Board of any governance issues or processes that need to be considered by the Board or any of its committees; and
- makes recommendations on accountability statements for the roles of the Board, Chair, Board members, Committee Chairs and the Chief Executive Officer.

During this fiscal year, the Corporate Governance Committee met five times and carried out the following activities:

- began the process of reviewing and updating the Corporate Governance Committee Charter;
- as a result of the change in legislation, amended the bylaws of the corporation to reflect the new name, Farm Credit Canada/Financement agricole Canada, and engaged in a broader review to update all bylaws. This review will be completed in the next fiscal year;
- reviewed the roles and responsibilities of the Committee with respect to new lines of FCC business made possible by the corporation's new legislation, specifically complementary services and venture capital; and
- reviewed the level of Board remuneration and made a recommendation to the Board.

* *Maurice Kraut is acting as the interim Corporate Governance Committee Chair as a result of the departure of Edward W. Clark, whose term as Director expired in 2001.*

Board and management relations

A Board's ability to work closely with management and simultaneously function with an independent perspective is key to effective corporate governance. FCC's Board strives to develop a strong working relationship with all members of senior management. In turn, it expects FCC management to implement the corporation's strategy and business plan and to keep the Board apprised of its activities.

In conjunction with the Chief Executive Officer, the Board also ensures that an appropriate allocation of responsibilities between both parties occurs. In addition, the Board establishes clear accountability including a set of corporate objectives and an evaluation framework for the CEO.

Throughout the year, the Board of Directors has maintained a commitment to open communication with management. Members of senior management regularly attend and participate in the discussions at Board meetings on a rotational basis.

PENSION COMMITTEE

Last fiscal year, FCC withdrew from the Public Service Superannuation Act (PSSA) pension plan and established Solstice, FCC's own employee pension plan. This fiscal, employee PSSA pension funds were transferred from Treasury Board to FCC's pension plan. Two Board members sit on the FCC Pension Committee and, following a defined governance structure, directly oversee the administration, as well as the investment policies of the plan. In addition to Board representation, the FCC Pension Committee also includes senior management and elected employee representation.

ACTIONS REQUIRING BOARD APPROVAL

Historical Board practice and accepted legal practice has established a clear understanding between management and the Board of Directors that all matters of a material nature must be presented to the Board for approval. The Board bylaws state that Board approval is required for all major corporate policies, the Corporate Plan, budget and financial statements.

Board remuneration

For the performance of their duties, Directors are paid an annual retainer and per diem amounts set by the Governor in Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food.

Following a thorough review of remuneration levels for Governor in Council appointees to Crown boards and agencies, the Privy Council established new remuneration guidelines during the last fiscal year. Pursuant to Ministerial recommendations, the Governor in Council subsequently approved adjustments to Board member remuneration.

The new rates were approved on April 5, 2001. The rates were made effective retroactive to October 1, 2000, and are as follows:

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended. Committee Chairs receive an annual retainer of $6,400 and $375 per day for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Per diems are paid for time spent performing Board business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.

Director	Board retainer (A)[1]	Per diems (B)[1]	Total remuneration (A&B)	Board meeting attendance[2] (%)	Committee meeting attendance[3] (%)	Board expenses
Edward W. Clark[4]	$ 5,225	$ 6,900	$ 12,125	100	100	$ 11,868
Robert M. Colpitts[5]	1,800	4,875	6,675	100	100	11,461
Rosemary Davis	12,950	10,845	23,795	100	100	17,678
Rashpal Dhillon	6,350	8,250	14,600	88	100	11,981
Warren Ellis	6,350	10,275	16,625	100	100	20,435
Donna Graham	6,350	11,700	18,050	100	100	11,455
Eleanor M. Hart	7,475	10,350	17,825	100	100	15,133
Maurice Kraut	6,683	7,350	14,033	75	100	4,315
Marie-Andrée Mallette	7,475	9,975	17,450	100	100	18,365
Joan Meyer	6,350	7,687	14,037	88	100	4,751
Marilyn Marie Scott	6,350	7,200	13,550	100	80	3,199
Germain Simard	6,350	10,050	16,400	100	100	19,806
Total	$ 79,708	$ 105,457	$185,165	8 meetings	5 meetings	$150,447

1) Column A (Board retainer) and column B (Per diems) include retroactive amounts paid for the period of October 1, 2000, to March 31, 2001, in the total amounts of: $12,025 Board retainer and $9,240 per diems. 2) There were five Board meetings and three Board teleconferences. 3) 15 committee meetings were held: five Audit, five Human Resources and five Corporate Governance. 4) Edward W. Clark's term expired on November 27, 2001. 5) Robert M. Colpitts' term began on November 27, 2001.

Glossary of Terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as Agribusiness.

Alliances
Relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one percent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income, calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Farm Finance
Farming that produces raw commodities, e.g. crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, when in management's opinion, there has been a deterioration of credit quality such that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Integrated risk management
The coordination of risk mitigation efforts to enhance the risk culture of the organization.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred from the use of interest-bearing funding instruments.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of a relative or absolute change in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the Corporation's net economic worth to changes in interest rates.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Return on Assets (ROA)
Net income expressed as a percentage of average total assets.

Return on Equity (ROE)
Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM)
A tool to measure overall credit risk present in the portfolio which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value Added
Businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

FCC Office Locations

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Lethbridge, Medicine Hat, Olds, Red Deer, St. Paul, Stony Plain, Vegreville, Vermilion, Wetaskiwin, Westlock

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba

Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage la Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario

Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, London, Lindsay, Listowel, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec

Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Sherbrooke, Sainte-Foy, Saint-Hyacinthe, Saint-Jean-sur-Richelieu, Saint-Jérôme, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick

Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland and Labrador

Mount Pearl, St. John's

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown, Summerside

Government and Industry Relations

50 O'Connor Street, Suite 1100
Ottawa, Ontario K1A 0S6
Telephone: (613) 993-9897
Fax: (613) 993-9919

Corporate Office

1800 Hamilton Street P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: (306) 780-8100
Fax: (306) 780-5456

www.fcc-fac.ca

Customer toll-free number:
1-888-332-3301

Cette publication est aussi offerte en français.

Farm Credit Canada

forward momentum

Annual Report 2002-03

forward momentum

Farm Credit Canada is passionate about agriculture. We are committed to helping our customers succeed, and we use our agricultural expertise to help make that happen. But we can't do it alone.

At FCC, relationships matter.

Great relationships provide us with insights that allow us to remain relevant, tailoring products and services to help our customers' businesses move forward through each life phase.

Relationships permit us to forge mutually beneficial alliances with our partners and stakeholders.

We recognize that alongside opportunities, traditional challenges such as weather and market forces exist, but issues such as these aren't hindering the agricultural industry's momentum.

Primary producers are expanding and diversifying.

The agribusinesses that support farmers are growing.

Partnerships, which have always been intrinsic to rural communities and farming, are becoming indispensable in modern operations.

FCC is moving forward, too, continuing to serve Canada's primary producers while leveraging our expertise to create new products and services that go beyond lending.

Offering venture capital, expanding business services and forging new alliances and partnerships are just some of the ways we are benefiting our customers and the agricultural industry as a whole.

Today, inspired by the energy of our customers, FCC is fuelling agriculture's momentum by serving its full spectrum, by being proactive and forward looking.

This industry is our passion and our purpose.

Agriculture. It's all we do.

Corporate profile

FCC helps farmers and agribusiness grow, diversify and prosper. Operating out of 100 offices located primarily in rural areas, the corporation's dedicated employees are passionate about the business of agriculture. FCC's healthy portfolio of $8.8 billion and ten consecutive years of portfolio growth are a reflection of our customers' success.

Vision Visionary leaders and trusted partners in agricultural financing – putting the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Mission To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Corporate values At FCC, our corporate values guide our conduct with colleagues and customers:

Focus on the customer. We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity. We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together. We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

Give back to the community. We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence. We are committed to one thing: the success of the agricultural industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees to achieve their potential.

Table of Contents

Operational and financial highlights

For the year ended March 31

Operational	2003	2002	2001	2000	1999
Loans receivable portfolio					
Number of loans	78,442	75,888	75,202	73,686	72,311
Amount ($ millions)	8,812.6	7,715.8	6,907.6	6,303.8	5,843.4
Net portfolio growth (%)	14.2	11.7	9.6	7.9	9.9
Percentage of loans receivable in good standing (%)	96.4	96.5	95.5	94.9	94.8
New lending					
Number of loans approved	24,396	17,842	13,289	14,201	14,880
Amount of loans approved ($ millions)	3,138.3	2,446.1	1,752.5	1,611.6	1,617.4
Average size of loans approved ($)	128,640	137,097	131,875	113,500	108,700
Real property held at year end					
Number of properties	19	115	372	924	1,516
Number of acres	5,109	28,855	120,924	360,284	604,054
Value ($ millions)	3.5	10.1	25.1	64.9	103.4

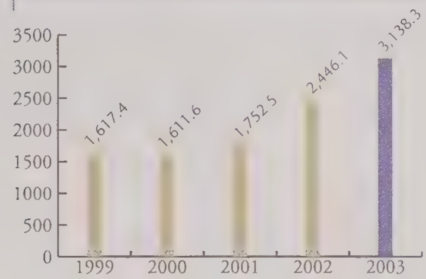
Financial	2003	2002	2001	2000	1999
Balance sheet ($ millions)					
Total assets	8,991.2	7,884.0	7,179.3	6,570.7	6,125.1
Total liabilities	8,148.4	7,138.0	6,346.7	5,943.5	5,533.2
Equity	842.8	746.0	832.6	627.2	591.9
Income statement ($ millions)					
Net interest income	269.3	201.2	164.5	154.4	146.3
Provision for credit losses	67.2	45.5	40.2	52.7	33.2
Other fees and income	14.0	14.7	31.4	29.4	21.8
Administration expenses	119.3	101.6	94.5	90.8	90.1
Income before income taxes	96.8	68.8	61.2	40.3	44.8

As a sovereign borrower, FCC maintains an AAA credit rating.

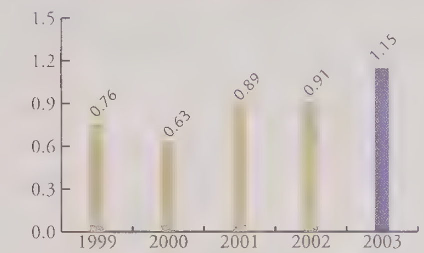
Key results

- $3.1 billion of new loans approved
- Loan approvals increased in all areas of the country and in all business lines
- Achieved tenth consecutive year of portfolio growth with a 14.2 per cent increase in 2002-03
- Net income generated increased return on assets and return on equity
- Higher net income mainly due to increased net interest income
- Efficiency ratio improved to 42.3 per cent in 2002-03 from 48.4 per cent in 2001-02
- Maintained debt to equity ratio of 9.7:1, well within legislated maximum of 12:1, demonstrating FCC's ability to fund growth

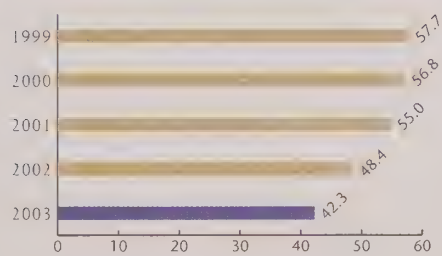
Loans Approved ($ millions)



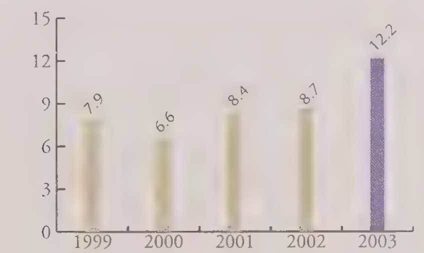
Return on Assets* (%)



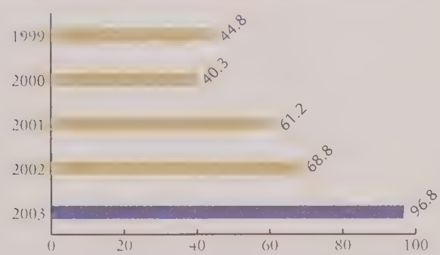
Efficiency Ratio (%)



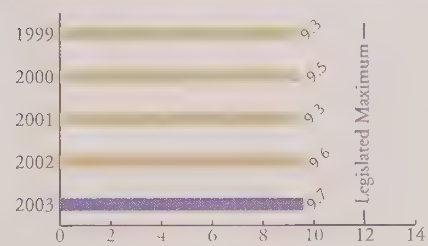
Return on Equity* (%)



Net Income ($ millions)



Debt-to-equity** (X:1)



* *FCC not subject to income tax effective April 1, 2002 – all years are stated before income taxes*
** *equity restated in 2001 to remove tax asset pursuant to FCC income tax exemption*

message from the President

Forward. Momentum.

Globalization, environmental issues, consolidation, the evolution of complex operations – all have combined to change the face of agriculture and agribusiness in Canada.

With these changes come challenges and opportunities. Challenges include the fact that modern operations are capital intensive. New entrants to farming and agribusiness with the vision and drive to forge ahead often lack the cash flow, down payment or credit history to access the capital they need. Even the most experienced operators have extensive capital needs when expanding or diversifying.

In terms of opportunities, value-added processing, new products, expanded markets and new sources of capital are increasing profitability and economic growth within agriculture and agribusiness. At the heart of this complex industry, there is momentum that cannot be denied. FCC is contributing to agriculture's forward thrust because we understand the forces shaping the industry. As our customers often say, "We get it."

We understand the cyclical nature of agriculture: how weather, commodity prices and other market forces can affect even the most sophisticated farm or agribusiness operator. We know that large up-front capital costs are the norm and recognize that there can be a lengthy period between initial investment and revenue generation.

Our knowledge can largely be attributed to our employees, most of whom have agriculture degrees or diplomas; many still farm or have family members who farm; and all share a passion for the industry. FCC's biggest asset, therefore, is our staff, with their understanding of the vast agricultural industry and deep commitment to its success.

Speaking of success, this is the tenth consecutive year of growth for FCC, and we have our customers and employees to thank. Our customers give us their business. They share ideas and insights. They are the reason we exist. Our employees listen and respond, providing products, services, information and education for our customers. Thanks to these two groups, we remain totally self-sustaining.

In 2002-03, FCC's loan portfolio grew to a record \$8.8 billion. Our return on equity increased to 12.2 per cent, and every dollar of profit is re-invested into diverse agricultural endeavors.

FCC's momentum is increasing as we grow from providing loans and advice to offering business and financial solutions. This past year, we purchased Settler Computer Technologies Inc., enabling FCC to offer producers sophisticated products to enhance their management skills. A warm welcome to Settler employees who have joined the FCC team.

Our commitment to primary producers remains at the very core of our business. They require support from the entire value chain, from agribusinesses that produce inputs to those that process or package outputs. We also entered the venture capital field and are maximizing partnerships in order to get things done on behalf of Canadian farmers.

In the midst of all this activity and achievement, I must pause to acknowledge the passing of Rashpal Dhillon, or Paul as I knew him. He was an extraordinary individual who served on our Board of Directors for the past seven years. Mr. Dhillon passed away on January 6, 2003, surrounded by family and friends. The contributions he made to FCC, and the vision and the energy he brought to our Board, will not be forgotten.

- continued on page 6

Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Driving principles.

Our vision, mission and values drive our business strategy, identifying our purpose, our aspirations and our conduct with our customers, partners and employees. From this solid foundation, we move forward, united and committed.

There are three principles shaping our efforts to better serve FCC customers: leadership, knowledge management and innovation. When I talk about leadership, I am not confining this concept to managers. We encourage leadership at all levels of FCC. Leadership means taking initiative: seeing an opportunity and acting upon it to provide solutions to our customers, partners and co-workers.

FCC customers respect and rely on our extensive knowledge of agriculture. Indeed, it is the single biggest reason we attract and retain our customers. Knowledge management is formalized at FCC with communities of practice that inventory and expand our knowledge base for the use of customers, partners and fellow employees.

Innovation is also in action at FCC. Our vision to "lead the way" means that we constantly strive to anticipate customer needs. We strive to identify trends, management practices and customer challenges in order to develop innovative products and services. Sometimes our staff demonstrate innovation simply by structuring a loan proposal for a customer in a unique way. In short, innovation is a way of thinking that permeates FCC.

With these three principles shaping our future, we are well equipped to help producers and agribusiness thrive in the future.

Strategies for success.

Our focus will remain on our customers, adding value at every opportunity and at every stage of their business life cycle.

We will develop, package and deliver creative, new solutions for primary producers and agribusiness.

We will continue to optimize our performance, ensuring prudent financial management and improving operating efficiencies, expanding our customer base and increasing our activities in scope and range.

Results.

Our intentions are clear and our track record good, but how can we ensure we stay relevant and focused? We cannot evaluate ourselves based on any one measure, so we use a balanced scorecard. The scorecard focuses on four perspectives. A strong and explicit *customer focus* sets the pace in everything we do. A *people focus* ensures that we continue to grow and develop dedicated, skilled and innovative staff. *Service improvements* make certain we are constantly improving our processes, delivery channels and the quality of advice we provide. *Financial success* is the foundation of our continued customer support and corporate longevity. I invite you to review the balanced scorecard so you can see how we performed in these key areas this past year and what we're proposing for the year ahead.

Our balanced scorecard is a reflection, again, of the kind of people we have working at FCC. Our employees are directly responsible for the positive results that I so proudly share with you. It is their efforts, enthusiasm and expertise that elevate this corporation to new levels year after year, and I am proud to be working alongside them.

By constantly challenging ourselves, exploring opportunities with customers and encouraging leadership at all levels, FCC has completed another great year, helping enhance rural Canada and ensuring the long-term sustainability of Canadian agriculture.

There is an energy and momentum propelling us forward, and I am looking forward to what is yet to come.

John J. Ryan

message from the Chair

Proud to WORK ALONGSIDE farmers, agribusiness operators and alliance partners.

The FCC Board of Directors has a rare blend of skills and experience. Our group reflects diverse backgrounds in agriculture, management, finance and public policy.

Our role is to oversee FCC's management and business in the best interests of the company and, as a Crown corporation, in the best interests of the Government of Canada. We play a crucial role in setting the strategic direction. We then hold management accountable for the execution of said strategies.

We experienced some changes to the Board this year. Sadly, our respected colleague Rashpal (Paul) Dhillon passed away January 6, 2003. He had served as a Director since June 6, 1995, and made many contributions. Recognizing and rewarding people was a way of life with Mr. Dhillon, not just a way of doing business, and I would be remiss if I did not acknowledge the tremendous impact he had on our Board and myself personally. He will be sorely missed.

As well, Marilyn Marie Scott's term expired December 10, 2002. In the six years she served, Ms. Scott shared her knowledge, energy and enthusiasm with us tirelessly. We thank her and commend her on a job well done!

Russel Marcoux replaces Marilyn Scott. Mr. Marcoux owns and operates a grain farm in Saskatchewan. As well, he is the Chief Executive Officer of the Yanke Group of Companies. We welcome him and look forward to the skills and abilities he brings to the Board.

The boundaries of Canadian agriculture are expanding. However, I am pleased to report that primary producers continue to be FCC's first priority. We believe that it is also important to work with the agribusinesses that support farmers.

Strong partnerships and alliances have always been central to the way FCC does business. Today, they are indispensable.

FCC's community investment activities focus on farm safety, hunger and education. We actively seek ways to impact rural areas, as often those needs are not so obvious or so easily met. It is exciting to make a difference, whether providing a van to transport food hampers to rural locations, donating money and time to Habitat for Humanity, partnering with St. John Ambulance or fostering 4-H programs.

FCC employees make a huge contribution to community by sharing their time. They are also the prime reason that FCC is so successful as a business. Without their efforts, this corporation could never achieve the things it does, and I'd just like to say a sincere "Thank you" to all FCC employees. You are a remarkable group of people.

From the orchards of British Columbia to the potato farms of Prince Edward Island, there is momentum that we, the Board of Directors of FCC, can both sense and see. These are exciting times, and we will continue to work with our employees, partners, customers and their communities to keep pace and contribute to the long-term success of the agricultural industry.

Respectfully submitted on behalf of the Board of Directors,

Rosemary Davis

Rosemary Davis

message from the Minister

Today's agriculture and agri-food business faces significant new challenges, from changing consumer demands to a complex international marketplace.

In the new global economy, operating a farm is a challenging, knowledge-intensive task. Recognizing this, the federal, provincial and territorial governments are developing programs under the Agricultural Policy Framework to ensure Canada's farmers have access to the tools and advice necessary to make sound business decisions and to help them plan for the future. Our objective is to provide a national framework to make the Canadian agriculture industry the world leader in food safety, innovation and environmentally responsible production.

To achieve this goal, producers need access to business planning and financial solutions that will help ensure the long-term viability of their farming operation. By putting the power of sound business solutions and flexible financial services to work for farm families and businesses across the country, Farm Credit Canada (FCC) has become a valuable partner in helping us achieve our objective.

FCC's ability to offer products and services to meet the changing needs of farm-related businesses makes it an important tool in the growth and development of our sector. As well, the corporation now offers business solutions that complement its traditional financial offerings and encourages outside sources of funding to enter the agriculture industry.

I am confident that as the industry evolves, we will see more innovative services from Farm Credit Canada, and that it will continue to provide valuable financial expertise and leadership to ensure a bright future for our industry.

Lyle Vanclief
Minister of Agriculture and Agri-Food

Rashpal Dhillon

People were his passion

On January 6, 2003, Rashpal (Paul) Dhillon passed away at the age of 64. He was a beloved family man, loyal friend, astute businessman and respected leader in his home community of Richmond, British Columbia. He also was a highly valued member of FCC's Board of Directors.

Recognizing and rewarding people was a way of life for Rashpal, not just a way of doing business. It was this passion for people that led him to serve on FCC's Human Resources Committee. This passion also fuelled his community activities.

Rashpal was a trailblazer and an entrepreneur. He had the distinction of being the first Indo-Canadian RCMP officer. After leaving the police force, he directed his energies into building one of the largest cranberry operations in British Columbia.

A visionary who recognized opportunities and opened doors, Rashpal was instrumental in the decision to increase FCC's presence in British Columbia. He maintained that the business would be there to justify the expansion. In his own unassuming but convincing way, he was right.

Rashpal's passion for people, his diplomacy and his drive have influenced us all. We at FCC mourn his loss deeply. He will be sadly missed by all those who touched his life and were touched in return.

Operating environment

FCC is focused on agriculture, a key contributor to our national economy and an increasingly complex industry. FCC is also a player in Canada's financial industry, which is rapidly changing. In order to meet and anticipate customers' needs, FCC closely monitors the agricultural and financial services marketplace. We use this market intelligence along with customer feedback to develop innovative strategies, products and services. The following section explores key trends that have influenced our business strategy.

Canadian agriculture

The agricultural industry is cyclical in nature. Weather, transportation systems, capacity, consumer demand, international subsidies, competition and other variables affect the industry. FCC is committed to working with producers and agribusiness operators in good times and bad.

There is an ongoing trend to integrate agricultural production from supplier to consumer. Producers and agribusiness are expanding their operations and exploring niche markets. They are building partnerships along the agricultural value chain, increasing efficiencies, managing risk and intensifying marketing efforts. Recognizing the growing interconnectedness of the industry, FCC offers financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

Structural change in agriculture is resulting in fewer but larger farms, with an increase in the average loan size. This is resulting in an increased need for financing. Producers and agribusiness operators are running businesses just as complex as those of urban entrepreneurs. In this environment, sound business (including financial) management is a core competency that will distinguish successful producers. FCC is addressing this through an array of flexible financing, business services and education/training that extends beyond traditional lending activity.

According to Statistics Canada, the median age of all farm operators in Canada increased from 47 in 1996 to 49 in 2001. Over the next decade, as farms are transferred to a new generation, more than $50 billion in assets is expected to change hands. This trend confirms the need for strong succession planning, which FCC is addressing through AgriSuccess workshops, and reaffirms our efforts to engage and encourage young producers. FCC has several products that help young producers purchase existing operations while providing adequate income for those leaving farming.

Agribusiness continues to experience rapid changes in production, processing, communication and transportation technologies. Many of these value-added initiatives require large injections of cash to get off the ground and achieve long-term success. The result is increased efficiencies that improve the competitiveness of Canadian agriculture. FCC's expertise will play a crucial role in meeting the capital needs of agribusiness in the coming years. By supporting the growth of agribusiness, we are directly contributing to the success of primary producers.

As concern for the environment moves higher on the public agenda, regulations are becoming more stringent. Some operations will require additional capital to comply with new environmental regulations. In 2002, we introduced the Enviro-Loan to help producers and agribusiness operators make environmentally focused improvements. FCC actively supports sustainable business practices and good environmental stewardship. Terms and provisions to safeguard the environment are standard in our loan documentation.

Financial services industry

Like agriculture, the financial services industry is affected by change on many levels. Key financial and governance reforms are occurring across North America. Potential mergers, changing legislation, more regulation, volatile markets, changing demographics and technology are having an impact. The effects of Bill C-8, reforming Canada's financial services industry, also will be felt in the marketplace.

With a new regulatory framework and the expected economic recovery in North America, the financial services industry will likely see continued expansion. Increased focus on larger and international markets by many financial institutions could result in reduced access to their services in rural regions. This emphasizes the continued importance of FCC in rural Canada in years ahead.

Technology is shaping consumer demand and business models. Financial institutions provide customers with access to information and services 24 hours a day, seven days a week – in person, by phone, or through the Internet. FCC has determined that field staff serving customers "face to face" will remain our predominant service channel. This is supported by a call centre and Internet service.

Of ongoing interest are changes in the values of the American and Canadian dollar and in each country's interest rates, since the United States is Canada's primary trading partner. Many FCC customers export to the United States.

Statistics Canada indicates that farm debt outstanding rose to $40.8 billion at the end of 2001, continuing the steady upswing since 1993. Farm debt in Canada increased 23.4 per cent over the previous five-year average. In 2001, all provinces increased their debt load. Increases ranged from 2.8 per cent in Saskatchewan to 15.8 per cent in Newfoundland and Labrador.

Major holders of mortgaged farm debt were FCC (32.7 per cent), chartered banks (25.3 per cent), private individuals (13.6 per cent), credit unions (7.5 per cent) and provincial government agencies (6.8 per cent). Most non-mortgaged debt was owed to chartered banks (64.2 per cent) and credit unions (23.4 per cent). In 2001, FCC's market share of non-mortgage lending was 4.7 per cent. FCC's overall market share (mortgaged and non-mortgaged debt) was 18.5 per cent, an increase from 17.5 per cent in 2000.

International considerations

Global trade issues continue to place pressure on Canadian producers to increase competitiveness. The current round of World Trade Organization agricultural negotiations is expected to address issues associated with agricultural supply management systems, national trading organizations and subsidies. When these negotiations are finalized, it will be important to understand the effect on Canada's agricultural industry. The impact of the high spending levels in the U.S. Farm Bill on World Trade Organization negotiations is unclear.

- continued on page 12

It is predicted the role of government will continue to expand as a result of the September 11, 2001, terrorist attacks and heightened global conflict. Foreign trade will be more expensive because of higher transportation costs and border costs and delays (over 80 per cent of Canadian exports are to the U.S.).

The international Kyoto Protocol calls for reduced production of greenhouse gases. How this will affect the Canadian economy, and specifically agriculture, has yet to be determined.

As reflected in the federal government's Agricultural Policy Framework, there is a drive around the world toward increased food quality and safety and sustainability. Fortunately, Canada's food supply is widely respected internationally for its safety record and quality.

The ongoing transformation of agriculture and agribusiness and the evolution of the financial services industry present risks, challenges and opportunities for customers. Today, fueled by business savvy, determination and pride, primary producers and agribusiness are accelerating into new areas, exploring new opportunities. FCC's role is to help the industry meet these challenges and maximize the opportunities.

In perspective

Farm financial research released by Agriculture and Agri-Food Canada in January 2003 indicates that:

- Average net worth per farm has increased by 15 per cent since 1999.
- Canadian farm families earned an average of $75,400 in 2001.
- Average net market income increased 4.5 per cent in 2001.
- All provinces reported higher average net cash income for 2001.
- Investment in farm machinery and equipment is up 14 per cent since 1999.
- Quota investment has nearly doubled between 1997 and 2001.
- 72 per cent of farms were in the favourable stability class in 2001, up from 70 per cent in 1999.

Customer profiles

Newfoundland's best kept secret

Newfoundland's DAIRY industry isn't what usually comes to mind when people think of Canadian agriculture. As dairyman Brent Chaffey explains, "Anywhere else in this country, most people are at least aware that there is an agricultural industry in their province. In Newfoundland, we're fighting a battle just to inform people, 'Hey listen, we really do have an industry here!'"

Brent Chaffey

Brent has made the development and promotion of Newfoundland's agricultural industry his life's work. His passion is dairy and he's seeing the impact of his efforts in his own business and the province's growing industry.

His family settled in Newfoundland in the 1700s, and generations of Chaffeys made their living on the land and sea – cutting trees, raising vegetables and fishing. Walter Chaffey, Brent's grandfather, kept a few cows and it wasn't long before Brent's dad, Wilson, took the family business to the next level, starting the dairy side of Chaffey's Farm in 1969.

In 1992, the Chaffeys decided to incorporate their business and pass it down through the family. FCC helped them examine options for structuring the sale and arranged the necessary financing.

Under Brent's management, Chaffey's Dairy Farm employs 15 full-time staff and a number of seasonal employees. Brent says his approach to running the business has evolved to meet the challenges and opportunities in today's marketplace. "We've grown tremendously and we're getting ready to go even further. We've applied new technology and production methods and we're working very hard to see the dairy industry grow in Newfoundland – an industry that could double if we develop markets like secondary processing."

Brent says doing business in Newfoundland poses some unique challenges. "Newfoundland is different from the rest of Canada in that we're very limited in the financial resources we have available to us for business enterprises of any nature. The need for new land, especially to raise corn and other crops to feed dairy cattle, is a severe drain on cash flow. We needed a flexible, innovative lending institution to bring this property into production.

"Individuals interested in these kinds of business opportunities need support and risk capital," Brent explains. "FCC, through its local staff, is very much in their customers' corner. It takes a forward-thinking organization like FCC to take the needs of a remote province, such as Newfoundland, seriously and to make sure we get the services we need. That commitment keeps us doing business with FCC – they've been with us from the beginning and we've always had great service from them."

Chaffey's Dairy Farm
Christine Wheaton, FCC Account Manager

The secret is in the milk

A culinary REVOLUTION is heating up in Quebec.

The province's most reputable chefs are beginning to realize the outstanding quality of home-grown ingredients.

Jacob Lehmann

You'll find chefs and producers pooling their expertise to win over even the most discerning Quebec palates with new and exciting specialties.

Marie and Jacob Lehmann recognized the opportunity and seized it. The Lehmanns immigrated to Quebec from Switzerland in 1983. With the help of FCC, the Lehmanns became successful first-time owners of a dairy farm, a feat that would have been virtually impossible in Europe. Their Brown Swiss herd of 30 enabled them to provide for their own family, while their three children were young. "In the 1980s, our dairy herd was considered average sized," says Jacob. "By 2001, our herd wasn't large enough to provide a living for five adults!"

The day their children – Sem, Isaban and Léa – told them that they all wanted to take over the family farm, the Lehmanns faced a choice. They could either triple their milk quota or turn the milk into cheese and capitalize on the high quality of milk from their Brown Swiss cattle. As Marie tells it, "Before we left Switzerland, Jacob was a third-generation cheese maker. Our passion for home-made goods and our love of the rural lifestyle led us to create La Fromagerie Lehmann (Lehmann Cheese)."

When the time came to switch over to an agribusiness, the five equal-share partners presented a business plan to Jean Côté, their FCC account manager for the last 20 years.

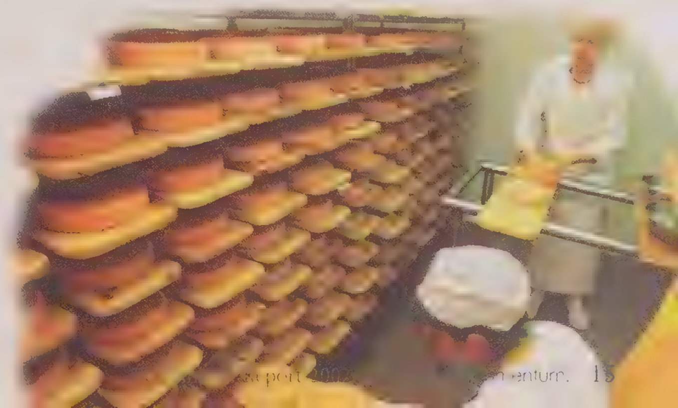
"What most impressed me about the Lehmann business plan was that each member of the family had a voice in the decision making. Léa and Jacob are master cheese makers, Marie is in marketing and Isaban looks after the equipment and the fields. Sem manages the cattle and feed." Jean adds, "The business plan was so well prepared that we gave the go ahead and, 10 months later, La Fromagerie Lehmann came to be."

"We can't produce enough to meet demand," Marie explains. "We produced approximately 15,000 kilos of cheese in 2002. Demand was much higher." But as everyone who's tasted fine food knows, it's better to have a little bite of a good thing than a lot of mediocre.

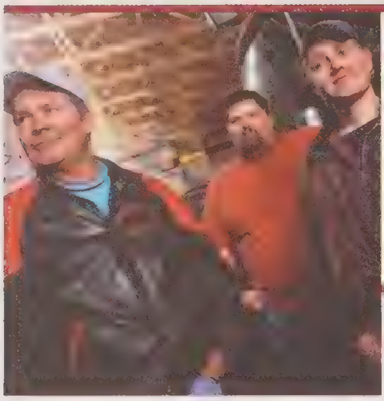
Lehmann cheeses were introduced to the Quebec market in March 2002, winning both a local following and prizes! Customers from over 120 Quebec restaurants chose the company's Kénogamie, a raw milk-based cheese, as the "best Quebec cheese." That's a big accomplishment for such a new operation.

To what do these master cheese makers attribute their success? "The secret is in the milk!" they say.

La Fromagerie Lehmann
Jean Côté, FCC Account Manager



Success over and under the hill



Over the HILL and Under the Hill Farms Ltd.

The name of this family-run mixed farming operation wraps up the location and a major facet of the business in one neat package. As president Doug Berry explains, "'Over the Hill' describes where we're located, about 140 kilometres west of Winnipeg in the Glenboro/Cypress River area. 'Under the Hill' refers to the potato part of our operation."

Doug, Chad and Kevin Berry

Over the Hill and Under the Hill is truly a family business. Doug, his brother Bruce, son Chad and nephew Kevin operate the 6,400-acre farm that has grown from the section and a half farmed by Doug and Bruce's father Stan.

Through the years, the family expanded into corn, beans, wheat, barley, sunflowers and livestock production. In 1996, they produced their first crop of potatoes. Doug explains, "We knew that if we were going to keep our boys here, we needed to expand, so we put our plan together and talked it over with FCC. They were part of our preliminary discussions about whether potato expansion would be a feasible alternative to grain farming."

Starting with 300 acres of potatoes, the operation now has 1,500 acres in the potato park. Over the Hill and Under the Hill has four full-time employees. During peak season, the workforce swells to 35 or 40.

"I think FCC has really good people. Another positive thing is that their policies don't change with the wind. They stay the course and they've made the effort to know what we're about. You don't have to prove yourself over and over again. That's a big plus for us."

The future of Over the Hill and Under the Hill Farms will likely include further expansion, especially on the potato side. "The potato business is changing, just like every other business. So, to make everything work, we need to keep an eye on the markets and the industry and keep growing just to stay in the game."

Doug adds, "We try to make every decision with a five to ten-year outlook, and to make sure our risks are calculated. Our farm is a business, and we run it as a successful one. FCC helps us with that."

The younger family members are now moving into more responsible positions and eventually will be running the operation. Judging from the history of Over the Hill and Under the Hill Farms, FCC will be there when needed. As Doug says, "They've always looked at us and said we were a pretty good investment. Along with everything else, we really appreciate the fact that they've always made us feel like we're real people, and we feel good about dealing with real people. That makes a big difference."

Over the Hill and Under the Hill Farms Ltd.
Tom Harland, FCC Account Manager

Growing strong

What can we grow for YOU? is the motto that Marc and Dianne Shane created for their rapidly expanding greenhouse operation. The slogan is a perfect fit for their output of bedding plants, wholesale annuals, perennials and specialty varieties for garden centres and grocery store chains in western Canada and the northwestern United States.

Dianne and Marc Shane

Marc explains, "The motto came from the fact that our business is not to grow the flowers that my wife and I like, but to grow what our customers want to offer to the people they serve. So we say, 'What can we grow for you?' Then, we listen. If our customers are successful, we are successful."

In 1988, the Shanes established their business in Milner, British Columbia, with a 2,800-square-foot cold frame. Today, their company is one of the largest bedding plant greenhouse operations in British Columbia, with 31 acres of greenhouses and 12 acres of developed outdoor growing area. They also own Milner Greenhouses, the single largest greenhouse operation in Saskatchewan, with more than eight acres of greenhouses in Biggar.

In the six years since FCC became Milner Greenhouses' term lender of choice, the Shanes have found that Farm Credit Canada shares their customer service philosophy. "FCC has enabled us to grow our business," says Marc. "We have been able to seize opportunities, whereas traditional financing wouldn't have allowed us to do that."

According to Marc, FCC understands their business. "The folks at FCC know that farming isn't like a traditional business. Farming is unique in its needs. It's weather-driven, our products are live, with a limited shelf life, and they've got to be moved."

He continues, "With our FCC account manager, we have someone who knows what we're talking about.

"FCC looks at your operation, sees what's going on with the market, and knows enough to make an informed decision when you present an idea to them."

This flexibility and specialized knowledge about specific sectors of the industry as well as agribusiness in general, has made FCC a valuable partner in the rapid expansion of Milner Greenhouses. Marc and Dianne are focused on still more growth, and they intend to stick with FCC.

The young couple agrees that success in business, like life, is all about relationships. "Unless you build a relationship," Marc explains, "chances are you aren't going to go anywhere. We have an excellent relationship with FCC and its people. It's a relationship where they understand and support what we're doing. Just like us, FCC is here to serve its customers and do the best it can."

Milner Greenhouses Ltd.
Raymond Wagner, FCC Account Manager

Building value from gate to plate

When Farm Credit Canada's alliance program began, it primarily involved the livestock production industry, serving farmers' co-operatives financing feeder cattle or breeding cattle for their members. Now, FCC has expanded into new areas where they can make significant contributions to the growth of the agricultural industry's value-added sector.

Peter Hatzis

Better Beef Ltd. is one of Canada's most successful meat processors, providing high-quality beef products to the world from its headquarters in Guelph, Ontario. A family-founded corporation that is 100 per cent Canadian-owned and operated, its goal is to integrate the best people with the best technology to consistently provide the best beef products. Better Beef believes that stable, long-term relationships with employees, suppliers and customers are essential to the future prosperity of the company. As their motto says, "Together, we build value."

In 2002, FCC Account Manager Rick McElheran talked with Better Beef about the possibility of forming a livestock alliance with a slight twist – a private company rather than a co-operative, involved in processing rather than basic production. A deal was struck. Better Beef was then able to disburse funds to producers enabling them to finance feeder cattle that would, in turn, be delivered to Better Beef for processing.

Explains Better Beef's cattle-buyer Peter Hatzis, "Our goal is to increase the province's cattle production, adding value to turn Ontario cattle into beef that's sold around the world. For us at Better Beef, financing with FCC will help us grow our industry, make our farmers more prosperous and make it easier for young producers to get into the feeding end of cattle production."

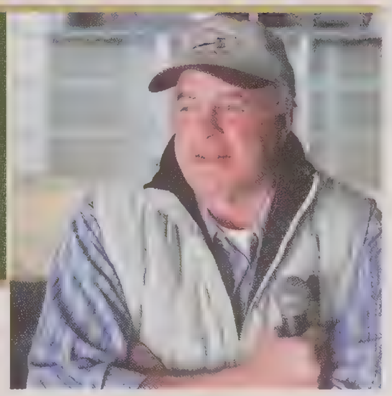
Building positive relationships with suppliers through the FCC alliance program is one way that Better Beef seeks to ensure the best possible results. Peter says, "Our relationship with FCC is just an extension of our company's philosophy. We go for the best to get the best results."

Peter stresses that food safety is, and always will be, Better Beef's number one concern. "We plan to implement all new technology that will allow us to trace products from gate to plate," he says, "so we can ensure that we continue to produce our products safely. The whole idea of traceability ensures that we can pinpoint any potential problems that might come through the plant. We want to grow, but we will not compromise on safety and quality."

Better Beef Ltd.
Rick McElheran, FCC Account Manager

Going once, going twice SOLD

David Carson, a true ENTREPRENEUR and auctioneer, is sold on FCC. "The staff at the local office here in town are excellent. When we want to consult with them or make a deal, they're willing and available … FCC has always come through for us."



David Carson

Along with two to three monthly dairy auctions, David Carson Farms & Auction Services Ltd. retains between 2,500 and 3,000 Holstein heifers and cows for private sale. But the Listowel, Ontario business goes far beyond auctioning dairy cattle. They also handle horse and beef sales, consignment machinery auctions, cash crop and custom work, operate a feed supply store, tack shop and restaurant. They even raise pure-bred boxer pups!

David says it all started when he was 19. He had a 100-acre farm and a few dairy cows his father helped him buy because he wasn't old enough to have the business in his own name. "When I turned 21, I got a loan with Junior Farmers and started out on my own," David explains. "Then I went to auction school and we expanded from there."

The auction business is a big part of David's operation. They farm to grow feed for the cattle they auction. They feed cattle so if the market is short, they have cattle on hand. If the market's overloaded, they have facilities to maintain cattle until the market changes. They buy out-of-season and sell in-season.

"We really enjoy dealing with FCC," David says. "Turnaround time is very good. And when you get something arranged, it's a done deal. They're not back in three months wanting to change it, or to change the people you're dealing with."

David appreciates that FCC understands the market. "They know that everything in agriculture is getting bigger – bigger numbers, bigger expenditures but smaller margins. They know why you need a million dollars here, a million dollars there. They're on board with the size of today's operations, not expecting you to run a farm on $50,000."

David's son Brad has joined the business and also has his own farm. "FCC has a lot of products that help give today's agribusinesses the edge they need to be successful. For example, we've had FCC come to some of our large sales to assist people who want to buy these enormous machines and need financing. FCC also has a lot of feeder finance programs and they work with us if we have customers who need that kind of assistance. All in all," David concludes, "FCC is really geared for modern farming; they're steady and here to stay."

David Carson Farms & Auction Services Ltd.
Tom Gibson, FCC Account Manager

direction and balanced scorecard

FCC takes a forward-thinking approach to strategic planning.

This year, we created a five-year strategy map that identifies FCC's key thrusts, the inter-relationships between corporate strategies and how we will achieve our vision.

The corporate strategic programs that move FCC forward flow from the strategy map. We have 13 programs in place to drive our momentum:

1. Demonstrate a visible commitment to the full spectrum of the agricultural industry.
2. Enhance customer loyalty and acquisition, focusing on primary producers and the agribusiness and alliances that support them.
3. Develop business services, with emphasis on improving producers' management skills and serving each life phase of our customers' operations.
4. Improve customer choice by developing alternate product and service delivery channels.
5. Build an infrastructure to support partnerships and alliances.
6. Enhance performance of information technology systems and processes.
7. Implement Customer Relationship Management infrastructure and processes.
8. Serve as a catalyst for venture capital investment in the agricultural industry.
9. Ensure prudent financial management.
10. Develop and foster an innovative culture.
11. Enhance strategy integration and execution.
12. Enhance leadership and employee engagement at all levels.
13. Create and share knowledge among all employees.

The Balanced Scorecard

The balanced scorecard is the foundation of the strategy map. Each of the 13 strategic programs identified above fall within one of the four perspectives of the balanced scorecard: customer, people, service and financial success. FCC balances its efforts among these perspectives, which are used to measure progress toward achieving corporate goals.

The balanced scorecard section of this report contains the strategies for 2002-03, the measures and targets, results at year end plus the strategies and targets for the following year. In essence, the balanced scorecard forms a snapshot of where we've been and where we're going.

Customers: Create solutions for customer success

FCC continually strives to provide primary producers and agribusiness with financial and business solutions that enable them to succeed.

Strategies 2002-03

Implement Customer Relationship Management techniques
- Apply Customer for Life segmentation, target of 30% of customer segmentation completed by March 31, 2003

Provide venture capital as a business line
- Establish venture capital as a business line, target of up to $5 million invested by March 31, 2003, and $25 million by March 31, 2007

Develop and initiate complementary services
- Establish complementary services as a business line, target of two complementary services launched by March 31, 2003

Integrate knowledge management into the core business of FCC
- Provide relevant syndicated or 3rd party information on the FCC Intranet, target of 150 information pages by March 31, 2003*

Implement new financial and business solutions addressing customer needs
- Gross disbursements for farm financing $1.48 billion, agribusiness $325 million and alliances $425 million for fiscal 2002-03
- Launch of product suite for new entrants to agriculture

Results 2002-03

37% response rate to Customer for Life Segmentation Survey

Venture capital strategy approved by Board, targets revised to $10 million invested in 2002-03, $50 million by March 31, 2007

Business Services division established**; FCC Business Planning Award launched; AgriAssurances enhanced; Settler Computer Technologies Inc. acquired; AgriSuccess workshops delivered

Business planning expertise provided to over 1,000 customers

On a gross basis, FCC disbursed $2.9 billion, with $2.0 billion to farm financing, $452 million to agribusiness and $430 million through alliances

Disbursements, net of FCC refinancings, totalled $2.6 billion, with $1.8 billion to farm financing, $409 million to agribusiness and $429 million through alliances

FCC launched a new suite of AgriStart products that resulted in 283 loans, totalling $92.3 million

Strategies 2003-04

Enhance customer loyalty and acquisition with focus on primary producers and the agribusiness and alliances that support them

Serve as a catalyst for venture capital investment in the agricultural industry

Develop business services, with emphasis on improving producer management skills and serving each life phase of our customers' operations

Demonstrate visible commitment to the full spectrum of the agricultural industry

Measures and Targets 20[illegible]

Maintain customer loyalty index at 4.24

$22 million cumulative investment in venture capital projects

Business Services revenues of:
- $2.4 million for AgExpert management tools
- $10.3 million for AgriAssurances

Attract 2,500 participants to professional development programs

Develop an AgExpert software customer base of 14,400

Gross disbursements of:
- Farm financing $1.7 billion
- Agribusiness $500 million
- Alliances $490 million

Disbursements, net of FCC refinancings of:
- Farm financing $1.6 billion
- Agribusiness $469 million
- Alliances $462 million

* *This measure was revised to: "Provide access to business planning expertise to 1,000 customers."*

** *Business Services was called Complementary Services in 2001-02.*

Tailoring solutions to fit

FCC is a leader in devising innovative solutions to serve a variety of customers in different life phases, found in various geographical locations and pursuing vastly different endeavors. Our share of the Canadian agricultural term debt market has grown steadily since 1993, reaching 32.7 per cent as of December 2001 (Statistics Canada). This trend confirms that FCC continues to meet the needs of the industry, in good times and bad, acting as a stabilizing force when fluctuations occur.

FCC Ventures acts as a catalyst, negotiating partnerships that will ultimately encourage other venture capital partners to invest in agriculture.

The Business Services division offers services that complement FCC's lending and address the need for more than just financing, making life and accident insurance available as a risk mitigator and providing training and education.

Product development

At FCC, customer feedback plays a key role in product development. We expanded our AgriStart product line in 2002 in consultation with our target audience: young farmers. Our Flexi-Farm loans offer producers the chance to seize opportunities or deal with such things as weather challenges without penalty.

Building on our strengths

FCC enters partnerships and alliances to provide more extensive services to customers. Through business alliances, partners maintain their independence while adding value by combining resources and expertise with FCC. As of March 2003, our alliance partners exceeded 30.

The objective of these alliances and partnerships is to increase our access to products and services for individual producers and agribusiness operators, thus strengthening the industry as a whole.

People: Unique people leading our success

By focusing on employee development and building a positive workplace environment, FCC is fostering the productivity and innovation we need to better serve our customers.

Strategies 2002-03	Results 2002-03	Strategies 2003-04
Mentor, train and develop all staff – Training and development spending/salary dollars, target of 3.5% each fiscal year	Investment in training and development to year end, 5.7% of salary dollars	Enhance leadership and employee engagement at all levels
Recruit skills that expand existing corporate competencies – Acquire venture capital and complementary services* expertise, target of March 31, 2003 – Establish a university recruitment program, target of March 31, 2003	Venture Capital and Business Services staffing complete University Recruitment program established	Create and share knowledge among all employees Develop and foster an innovative culture
Expand leadership training – Employee development plan completion, target of 100% by November 30 each fiscal year	Employee development plans complete Performance and Competency Excellence (PACE) training provided to all managers	**Measures and Targets 2003-04** Employee engagement score of 70% in 2004 Knowledge Management to establish 3 new agricultural communities of practice (CoPs)while maintaining the existing CoPs
Recognize and reward workplace innovation – Implement the corporate innovation program, target of 10 innovative ideas sponsored by March 31, 2003	Innovation program strategy complete Innovation intranet pages launched Idea Central, Innovation's pilot project, complete, with 56 ideas accepted for consideration, over 20 ideas implemented or incorporated into various strategies	Corporate policies available on the intranet Benchmark innovation within FCC and develop innovation index

* *Business Services was called Complementary Services in 2001-02.*

Remarkable people, remarkable progress

FCC has focused solely on agriculture for more than four decades. Over time, that focus has broadened to include the entire value chain, from agribusinesses that produce inputs to those that process or package outputs. These ventures, from primary production to value-added operations, benefit from the expertise, passion and commitment of our remarkable staff.

The corporation is committed to providing employees with the work environment, learning opportunities and challenges required to achieve their full potential. We offer ongoing coaching and training programs that address leadership, succession planning, risk management and project management, a field development program and "Learn the Business" initiative, which is a synopsis of the full range of FCC business activities.

FCC encourages employees to move into new areas of interest and pursue opportunities to keep careers vibrant and rewarding. This strategy helps to sustain a high-performing culture and maintain superior customer service.

We are committed to diversity within the workplace, and offer training, education, communication and partnership opportunities in this area. Also, FCC celebrates National Aboriginal Day, International Day for Persons with Disabilities, International Women's Day and International Day for the Elimination of Racism to promote diversity and discourage discrimination.

As a federal Crown corporation, FCC provides customers as well as employees with service in both official languages.

Our continued ability to surpass the highest expectations of our customers depends on high-calibre employees. This year, our University Recruitment Program hired 35 students for four-month work terms. Innovation, diversity, knowledge management, training, recruitment and growth are keys to attracting – and keeping – an engaged and energetic workforce.

The extensive knowledge of FCC employees helps build loyalty, increase retention and attract new customers. To maximize this business advantage to the benefit of customers, we need to capture and capitalize on existing knowledge within the corporation while growing new areas of expertise. In 2002-03, Knowledge Management (KM) added two new communities of practice (CoPs): Dairy and an Agricultural Operating Environment to the existing five: Pork, Aquaculture, Forestry, Greenhouse, Vineyards/Wineries and Beef. Other contributions include supporting and maintaining existing CoPs through face-to-face meetings, monthly teleconferences and developing intranet content. KM also worked with members of the CoPs to develop a cash-flow budget template and benchmarks, and identified sector strengths, weaknesses, opportunities and threats. A multi-year project to create an industry synopsis and a knowledge map of sectors is halfway complete. A continued focus on KM will ensure that FCC remains relevant to customers over the long term, in an increasingly complex industry.

Knowledge Management encourages groups of experts to share expertise, analyze industry developments and create a storehouse of knowledge for peers.

Kellie Garrett, Vice-President,
Strategy, Knowledge & Communication

Service: Making it easy for customers to do business

Process effectiveness is essential to making it easy for customers to do business with FCC. We strive to provide superior customer service, offering the kinds of quality solutions our customers need, when and how they want to receive them.

Strategies 2002-03	Results 2002-03	Strategies 2003-04
Integrate and grow Customer Service Centre (CSC), e-business and Alliance capabilities • Percentage of FCC disbursements via CSC, e-business and alliances, target of 20% for fiscal 2003*	54.6% of the total number of disbursements were processed via the CSC and e-business/alliance channels	Build an infrastructure to support partnerships and alliances Improve customer choice by developing alternate product and service delivery channels
Integrate flexible corporate information systems • Implement IT strategy, supported by redesigned business processes, target March 31, 2003**	The corporate strategy was incorporated into IT annual workplan IT divisional restructuring occurred and business processes are being redesigned, implementing the business process reengineering (BPR) study recommendations	Enhance performance of information technology systems and processes Implement customer relationship management (CRM) infrastructure and processes
Re-engineer business processes • Corporate efficiency ratio, target of 48.1% for fiscal 2003	Corporate efficiency ratio of 42.3% for 2003	

Measures and Targets 2003-04

- Benchmark an IT performance index
- 42,600 customer contacts via the CSC
- 8,500 customer contacts via e-business
- Corporate efficiency ratio of 43.1%
- Complete Phase 1 of CRM software installation

* *Target refers to loans originated through these channels. E-Business and Alliances are now considered to be one channel.*
** *The intent is to implement the business process reengineering (BPR) study recommendations.*

Process effectiveness and adding value

Technology and globalization have a significant influence on how customers obtain products and services. The financial industry is no exception. At FCC, we continually strive to improve our processes and delivery channels while adding value through the quality of our advice.

Information technology enables FCC to effectively serve customers across Canada. Employees depend on system applications and the speed and reliability of data transmission networks to conduct business and to share knowledge, both internally and externally, in a timely fashion. This vital resource must be continuously maintained and upgraded.

FCC focuses on providing flexible and responsive service to producers and agribusiness operators. Our Customer Service Centre (CSC), Alliance partnerships and enhanced Internet capabilities are just some of the ways that we are making it easy to do business with us.

Financial Success: The foundation of customer support

Sound financial management of the corporation enables FCC to continue anticipating, meeting and exceeding the needs of producers and agribusiness.

Strategies 2002-03

Create a portfolio vision spanning all business lines, ensuring a principal focus on primary production
- Establish a portfolio vision for agribusiness, target of March 31, 2003

Proactively manage risk, investments and administrative expense levels
- ROE, target of 10.05% for fiscal 2003
- Debt-to-equity ratio, target of 9.2:1 at March 31, 2003
- Strategic credit risk score on portfolio, target of less than 70 at March 2003

Proactively create and grow FCC's support for communities across Canada
- Community investments of 1% of previous three year average net income, invested by March 31, 2003*

Results 2002-03

Portfolio vision incorporating agribusiness approved by FCC Board

ROE of 12.2%

Debt-to-Equity ratio of 9.7:1

Strategic credit risk score on portfolio of 58.6

Community investments across Canada of 1% of profits

Strategies 2003-04

Enhance strategy integration and execution

Ensure prudent financial management

Measures and Targets 2003-04

Install standardized project management methodology

Establish brand equity reputation index

ROE of 12.48%

Debt-to-Equity ratio of 9.5:1

Strategic credit risk score on portfolio of less than 70

** Total community investment is 1.5% when industry sponsorships are included.*

Financial success

To continue serving customers well and supporting the agricultural industry through all economic cycles, FCC must be financially viable. We need the resources to weather the fluctuations intrinsic to the agricultural industry and to continue growing and expanding products, which now extend beyond financial products to supporting services and education.

It is important to generate a rate of return that allows us to remain self-sustaining and provides for future growth. A financial framework helps determine an adequate return for FCC in the following areas: net interest income, return on equity and an internal efficiency ratio. We are building on a solid foundation, ensuring our viability through sound financial and risk management practices, a loan portfolio diversification plan and expanded product offerings.

Building on the balanced scorecard

There are two dimensions that currently complement the balanced scorecard that have a tremendous impact on agriculture and FCC's role within it: our public policy role and our commitment to the environment.

Public policy role

FCC's public policy role is a reflection of its status as a federal Crown corporation. Our activities are focused primarily on enhancing rural Canada through our participation in agriculture and agribusiness.

Goals 2002-03

Provide business and financial solutions to farm families and agribusiness

Support agriculture through all cycles

Execute appropriate risk management

Maintain corporate self-sustainability

Maintain a presence in rural areas of every province

Conduct business in both official languages

Invest in the communities in which our employees live and work

Strategies 2002-03

Provide products and services that meet the needs of both primary production and value-added businesses

Focus on various ag sector needs and producer life phases

Proactive customer contact during challenging times

Implement and maintain integrated risk management processes

Continue prudent financial management and continuous efficiency improvements

Operate field, district and regional offices in each province

Have designated offices and support for language training

Donate 1% of corporate net income to charitable and non-profit organizations

Donate an additional .5% via industry relations sponsorships

Results 2002-03

Additional Flexi-Farm and AgriStart loan products designed and delivered

Creation of:
- FCC Ventures
- Business Services
- The Business Planning Award

Acquisition of AgExpert, a leading agricultural business management software

More than 8,040 letters sent offering assistance and support to customers facing difficulties

Corporate integrated risk management framework developed and progress reports completed

Ten consecutive years of portfolio growth

Positive net income

Ongoing business process re-engineering

Offices maintained in each province, primarily in rural areas

Maintenance of designated English and French offices

Provision of immersion programs and tutoring services for staff

Award-winning translation procedures

Targeted community investments based on 1.5% of corporate net income

Public policy: An unwavering commitment

FCC fulfills its public policy role by offering products and services to the agricultural community through solid business principles, which includes assuming an appropriate level of risk and operating on a financially self-sustaining basis. We further fulfill our public policy role by supporting agriculture *through good times and bad.* When disasters occur, FCC proactively contacts customers to develop plans to manage through challenging times. Over the past few years, FCC has worked with western Canadian farmers dealing with severe drought, PEI customers facing the potato embargo and disease as well as cranberry farms in BC and maple sugar operations in Quebec experiencing low commodity prices. We also helped Manitoba farmers during the Red River floods and Quebec and Ontario farmers during the ice storms.

Our ongoing presence in rural Canada speaks to our public policy role as well. FCC has offices in 100 rural communities, providing valuable products and services to customers when and where they need them, increasing revenues and offering employment opportunities.

FCC serves more than 44,300 customers in their official language of choice. We've implemented several best practices in this area that have been recognized by Treasury Board and the Commissioner of Official Languages. Employee participation in our language training program along with our award-winning translation procedures and guidelines allow FCC to serve customers and staff in Canada's two official languages simultaneously. The corporation is committed to creating a true climate of bilingualism for both customers and employees, thus enhancing the country's commitment.

Our public policy role is further fulfilled by our community investment program that provides funding and volunteers in the communities where our employees and customers live and work, thus strengthening rural Canada.

Primary producers continue to be FCC's key focus. However, our mandate provides opportunities to leverage the entire value chain. We now also finance the inputs to and outputs from primary production.

The leadership role FCC plays in product development is driven by customer and sector needs. In some instances, markets can be limited at the outset. However, since we're not driven purely by economic motives, the corporation can take the lead in such ventures. In many cases, our product offerings have subsequently been copied by other financial institutions, which is a good thing for the agricultural industry, giving customers ready access to and a choice of vendors.

With our expanded mandate, rural presence and focus on satisfying the long-term needs of customers, FCC will continue to help producers and agribusiness achieve success. We are firm in our resolve to contribute to the growth of the agricultural industry and economic strength of Canada.

Environmental responsibility and role

FCC actively supports sustainable business practices and good environmental stewardship.

We are careful to ensure that our lending activities do not lead to misuse, contamination or other deterioration of the environment. The *Canadian Environmental Protection Act* (CEPA), the *Canadian Environmental Assessment Act* (CEAA), *Fisheries Act* (FA) and the *Species at Risk Act* (SARA) identify FCC's responsibilities for safeguarding the environment.

FCC's loan documentation includes terms and provisions to safeguard the environment. All customers offering real property as security must complete an environmental questionnaire that allows for the assessment of any environmental risk. Customers must comply with all applicable federal and provincial environmental legislation and municipal by-laws, and may be subject to periodic environmental audits.

Planning is essential to the success of any corporation, especially one as large and diverse as FCC. The balanced scorecard is a tool that more and more businesses are using as it goes beyond financials into other key performance areas. It also serves as a vision casting mechanism, projecting strategies and targets for the future. We have found it highly effective in gauging our progress, charting our direction and informing the people of Canada about our work on behalf of the agricultural industry.

Community Investment

Building community strength

Fostering strong, vibrant communities with financial donations and volunteer help is an exciting way for FCC to fulfil its mission to enhance rural Canada.

As a member of the Canadian Centre for Philanthropy's Imagine program, FCC gives one per cent of profits to charitable and not-for-profit community organizations, through the donation of financial resources and in-kind services. This reflects our fervent belief that corporations have an obligation to give back to the communities in which they operate.

Our community investment activities are closely aligned with agriculture, focusing on farm safety, food and hunger.

Food for thought

Farmers and agribusiness operators are responsible for producing high-quality, safe food. We work with them to bring food to people in need.

Spreading holiday cheer

Over the holiday season, FCC supported local food banks and Salvation Army Christmas hamper programs, donating over $33,000.

In Nova Scotia, staff in the Kentville office partnered with ACA Co-operative Limited, an FCC customer, to purchase turkeys at cost. They helped 56 families enjoy a hearty Christmas dinner.

Staff in Granby, Quebec worked with the local Optimist Club to deliver Christmas dinner to 100 underprivileged kids.

World Food Day

October 16 is World Food Day. In 2002, FCC donated more than $30,000 in financial aid, food and volunteer support to food banks across Canada, enabling the Canadian Association of Food Banks to source and ship 1.2 million pounds of food.

Events were held from coast to coast. FCC's Brandon, Manitoba staff donated food vouchers to the Helping Hands Centre, a community-based soup kitchen, and cooked and served lunch to 150 people.

In Ontario, the Essex and Campbellford offices purchased steers from their local 4-H clubs and donated the meat to local food banks.

Addressing hunger year round

FCC understands the importance of investing time and money in hunger programs and food education events. Through our staff, we participate in a number of initiatives, including a school lunch program that fed over 3,000 needy students in 12 schools in Newfoundland. We also helped the Ontario Pork Association distribute processed pork to 2,500 people.

FCC worked with the Regina Board of Education and the Regina Exhibition Association to stage an engaging program called the "Pizza Project" that taught 2,000 grade two children where food comes from.

Supporting tomorrow's agricultural leaders

FCC helps youth in agricultural communities through its partnership with 4-H. In 2002, young people involved in 4-H were invited to create plans to reduce hunger or improve safety in their communities. Ten $1,000 scholarships were awarded, one in each province. Our national winner, 21-year-old Nancy Gorveatt of Nine Mile Creek, Prince Edward Island, received an additional $1,000 scholarship and a budget of $3,000 to put her garden plan into action. Over the summer, Nancy's garden project yielded fresh produce for 4,800 people. Nancy attends the University of Prince Edward Island and her goal is to become an elementary school teacher.

FCC received the *Friend of 4-H Award* in recognition of its long-term commitment to the Canadian 4-H council. This prestigious designation is shared with only five other organizations across Canada.

Farm safety

Farmers often work around large animals and operate heavy equipment, facing real hazards. FCC takes an active role in building awareness and providing education in the area of farm safety.

First Aid on the Farm

FCC and St. John Ambulance partnered for year two of "First Aid on the Farm". The program teaches young people how to prevent farm accidents and life-saving skills. In the past year, training was provided to 1,250 grade eight students in 45 schools across Canada.

Canadian Agricultural Safety Week

Working in partnership with the Canadian Federation of Agriculture, the Canadian Agricultural Safety Association and Agriculture and Agri-Food Canada, FCC was the lead sponsor for the 2002 Canadian Agricultural Safety Week. Each year, approximately 120 people are killed and another 1,700 seriously injured through farm-related accidents. Animal-related incidents are the leading cause of non-machinery deaths and injuries. FCC works with farm safety partners to reduce farm-related injuries and fatalities.

Farm safety signage

No consistent sign standards exist to identify potential danger areas on farms and agricultural work sites. FCC partnered with the Canadian Agricultural Safety Association and the Newfoundland Dairymen's Association to produce 900 safety signs for distribution across the country. The signs focus on common hazards such as farm chemical storage and heavy machinery operation areas. We hope that this initiative will become a catalyst in the development of consistent safety signage for all Canadian farms.

A passion for volunteering

FCC employees are remarkable. The amount of time and energy they spend volunteering positively impacts their communities across Canada.

The Employee Volunteer Program

FCC provides additional support to employees' charities of choice through the Employee Volunteer Program. When an employee donates a minimum of 40 hours annually, they are eligible for a $500 grant for that charity. In 2002-03, FCC's contribution through this program reached $34,000.

– continued on page 30

Nearly 10 per cent of FCC's staff registered in the Employee Volunteer Program, logging over 3,400 hours of volunteer time.

FCC employee Michel Champagne describes his involvement with the Scouts of Callander, Ontario for the last 16 years as "pure joy". Michel was a Scout Leader for years and is now on the Executive Committee. As a Scout Leader, Michel organized weekly meetings and took kids camping, canoeing and to jamborees. When he won an Employee Volunteer grant, he used the $500 to purchase tents for the 1st Callander Scouts.

Sharing the commitment

FCC recognizes the contributions employees make to various charities and supplements cash donations for certain events.

In 2002, FCC employees raised more than $169,000 for the United Way – another record year!

In Woodstock, Ontario, employees went the extra mile to raise money for the Canadian Cancer Society through the "Relay for Life" marathon. Led by FCC employee and cancer survivor Sharon Fendley, a total of $8,400 was raised.

Staff from Regina braved strong prairie winds to pedal in the Multiple Sclerosis bike tour, raising $10,000.

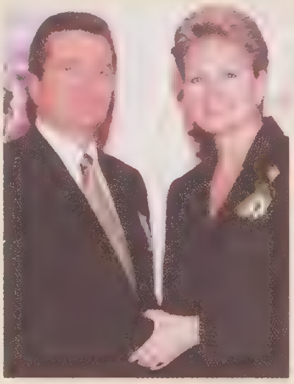
Spreading the bounty

When FCC replaces computers, office furnishings and equipment, older items are donated to local organizations.

Where there is need, there is opportunity. The passion of our employees and the commitment of the corporation combine to create a powerful force in the community and across the country.

A personal commitment

John Ryan, FCC's President and Chief Executive Officer, was honoured with the Queen's Golden Jubilee medal this year. The award was given in recognition of his contribution to Canadian society through his philanthropic efforts. Mr. Ryan serves on the boards of the Canadian Athletic Foundation, the 2005 Canada Summer Games, Regina's Adult Learning Centre and Wascana Golf and Country Club. He is on the Advisory Committee for the University of Regina Capital Campaign, is Chair of the Hospitals of Regina Foundation and former Chair of the Regina United Way Campaign Cabinet (2000). In 2001, Mr. Ryan led the CEO Challenge for Regina's Habitat for Humanity and he is taking the lead on this project again in 2003.



Lt. Gov. Haverstock (rt) presents the Queen's Golden Jubilee medal to John Ryan.

Mr. Ryan was raised in Mulgrave, Nova Scotia, where he grew up in a family of 12. The generous nature of his parents taught him the value of giving back to the community by helping those in need. Although the award recognizes distinguished service to others, Mr. Ryan freely acknowledges that he receives as much as he gives: "I find community service a challenge and a great deal of fun. The personal satisfaction that I gain is like one of those priceless moments that money can't buy." His beliefs and attitude inspire FCC employees and everyone he comes in contact with.

Loan products

Proactive and progressive

FCC works closely with Canadian producers and agribusiness operators to create financing solutions for each stage of their business life cycle.

We consulted with organizations like the Canadian Young Farmers Forum (CYFF) and the Canadian Federation of Agriculture (CFA) about the challenges facing start-up farmers. We then tailored new AgriStart products to meet those needs.

New, innovative AgriStart Loans:

Cash Flow Optimizer Loan

All you pay is interest, what you get is control.
This loan features interest-only payments that benefit start-up farmers with limited cash flow, allowing them to reinvest money that would normally go towards principal in other areas.

Transition Loan

Making farm ownership easier.
Retiring farmers with property to transfer to a new entrant can do so, risk-free. Full equity is guaranteed. Start-up buyers benefit from lower down payments and the potential for significant interest savings.

First Step Loan

Because the first step doesn't have to be the hardest.
This loan clears the way for students or recent graduates of post-secondary programs with limited credit history to raise capital toward the purchase of their first farm-related assets.

Building on the basics – other AgriStart Loans:

Payday Loan

10% Down, 100% Yours.
The Payday Loan is for individuals with off-farm employment who are interested in starting or expanding a farm business.

1-2-3 Grow Loan

Make a real profit, then make a real payment.
This loan provides deferred payment options to farmers starting or expanding an enterprise that will have a reduced income stream for one to three years. The option gives them time to build a business and earn revenues before making loan payments.

Flexi-Farm Loans

FCC's series of Flexi-Farm Loans recognize that all agricultural endeavors have an element of risk and sometimes things don't go as planned. Any number of factors can challenge cash flow. Flexi-Farm allows most producers to pause principal payments and accommodate changing cash flows.

FCC's Flexi-Farm Loans take flexibility to the max. Each one is tailored to different sectors, including cash crops, cow-calf operations, hogs, horticulture, potatoes and poultry, recognizing that each sector has its own unique challenges and needs.

Enviro-Loan

With increased emphasis on environmental issues, FCC introduced Canada's first environmental loan product in 2000. The Enviro-Loan is designed for producers and agribusiness operators to make environmentally focused improvements, such as installing methane digester systems to treat manure and convert it to useful energy.

Agribusiness financing

To grow an operation, customers must manage risk effectively, have the freedom to take advantage of business opportunities and financing that works in their favour. FCC's financial products can help.

The Performer Loan helps agribusiness operators expand. Customers partner with FCC to develop business plans. Interest rates are decreased as agreed-upon goals are reached.

The Opportunity Loan allows agribusiness operators to pause principal payments or re-advance the principal on their current loan to take advantage of opportunities that will benefit the business in the long term.

The American Currency Loan is for agribusiness enterprises that export into foreign markets. This loan makes it possible to borrow capital and make payments in American funds.

FCC staples

FCC offers long-term loans with fixed interest rates and terms of up to 20 years with amortization periods between three and 29 years. We also offer personal property loans, featuring no prepayment fees and monthly, quarterly and semi-annual payment options.

Prepay Anytime

Flexibility is key to surviving and thriving, so we recently built a Prepay Anytime option into many of our loans that allows producers to prepay when it suits them – not on an arbitrary date that we set.

We welcome inquiries on these and any of our other loan products at any FCC office or call toll-free 1-888-332-3301.

There are unique risks associated with new entrants to farming, some agribusiness operations and others. Rather than penalize or abandon these customers, FCC crafts products specifically for them, often gathering ideas and inspiration straight from the customers so that they get what they require: funding, flexibility, expertise and understanding.

Business Services

Dynamic growth

As operations become more sophisticated, farmers and agribusiness operators require insurance protection, software solutions and strong management skills. FCC's Business Services division is working on a range of business and educational services to complement its traditional agricultural financing options.

Agri-Assurances

With the launch of Agri-Assurances in October 2002, FCC's group creditor life insurance expanded to include enhanced accident insurance with a number of new features. Individual or joint coverage is available and customers have the choice of insuring the full loan amount or only a portion. Risk reduction features bring the plan in line with industry standards at competitive pricing. The result is an insurance product with added features and flexibility that is less expensive than our previous offering.

Education

FCC is interested in advancing the management practices of Canadian producers and agribusiness operators given that this is a key predictor of future success.

For beginning and developing farmers, we created the FCC Business Planning Award, targeting agriculture students. Students in their final year of a diploma agricultural program compete for prizes. Participants work with a mentor to create functional business plans that prepare young people for real-world challenges and opportunities.

"The award reinforces FCC's dedication to the agricultural industry and rewards students for their forward-thinking business plans. As these students move their plans into reality, I am confident that they will appreciate the value they've gained from participating in the Business Planning Award."

Garth Coffin, Principal, Nova Scotia Agricultural College

"The FCC Business Planning Award is my chance to prove that consistent hard work pays off in the long run. It's an opportunity to work with a specialist before returning to the farm. The program is also a stepping-stone for me into the financial side of the agriculture industry."

Barrett J. Gaunce, student, Nova Scotia Agricultural College

Another program FCC helped initiate to assist producers is AgriSuccess. AgriSuccess started out as a partnership of public and private sector organizations dedicated to helping Canadian farm and agribusiness operators plan for the future through a series of workshops. Since its inception, 80 workshops on succession planning and business planning have been delivered to over 2,000 participants. The program continues to evolve, but its focus remains firm: enhancing management skills within the agricultural industry.

FCC is also lead sponsor of Canadian Total Excellence in Agricultural Management (C-TEAM), a highly acclaimed management program for top agricultural managers, offered by the George Morris Centre.

FCC's Business Services division is gaining momentum by offering a range of business and educational services that put the power of specialized knowledge and innovation to work for farm families and agribusiness across Canada.

AgriSuccess: planning pays

Gerry and Lynne Smith have spent their lives together farming in Manitoba. They're now planning how to spend their well-deserved retirement.

"Gerry's dad, Douglas, retired at 55 and we were hoping to do the same," Lynne says over a cup of coffee.

"We started saving RRSPs about 15 years ago," Gerry explains as he takes a break during calving. "I'd love to have the family take over the farm, which was my father's. They would be the sixth generation on this land, but it's got to be viable."

With the help of sons Leigh and Jason, the Smiths farm about 3,700 acres and produce pedigreed seed. They also have a 180-cow/calf and feeder operation that utilizes barley and corn silage. Their other son, Ryan, works for a grain company in Alberta and Jason is in fourth year accounting at university. All the boys have degrees in agriculture.

The Smiths are some of an estimated 120,000 farmers across Canada who will be looking to retire during the next decade.

"We've been to seminars about retirement suggested by our accountant but they weren't specific to farming. When Gerry and I heard about one of the FCC AgriSuccess sessions called 'Building Your Business Plan,' we decided to go."

"I was particularly impressed by the presenters," explains Gerry. "I was quite surprised to learn how many people don't have business plans and what the success statistics show between farms that have one and those that don't."

As a result of the workshop, they've put their plans and their goals on paper and have given a copy to each of their sons. Now, they're looking forward to a family meeting to discuss the options.

"The workshop was a good reminder that we need to get this thing initiated," says Gerry. "My sons and their partners reacted very well. In fact, Leigh suggested the family meeting even before he received his letter. And one son told me he didn't know that I was such a writer!" he laughs.

It's very important to the Smiths to keep one step ahead of the game since some of the plans will take at least a couple of years to materialize.

"I will always be grateful to my father who allowed me to take responsibility on the farm at a young age. He allowed me the opportunity to make decisions, right or wrong," says Gerry. "I want to do the same for my sons and I think we can make it work."

AgExpert answers a need

The percentage of farmers using a personal computer for farm record keeping and planning as well as research is growing at a very rapid pace. Last year, FCC acquired Settler Computer Technologies Inc., a Regina-based company that has been in business for 20 years and is well known for the development of AgExpert, a leading agricultural business management software. Settler has customers in nearly every province, with the majority in the three prairie provinces and a significant number in Ontario.

FCC is moving AgExpert to a more modern platform that will make the software even easier to use. Over the next year, we plan to launch a French-language edition and market the enhanced software to farmers across Canada. Farmers, agribusiness operators and the agricultural industry will benefit through AgExpert management tools that will add value to their operations. In the near future, watch for expanded products and services.

Industry Relations

Building co-operation

At Farm Credit Canada, we seek to partner with the industry groups representing agricultural producers and stakeholders. Such groups actively contribute to innovation, leadership and the development of expertise within Canada's agricultural sector. Their work often parallels our own initiatives. Nurturing these relationships is, therefore, a natural way to positively influence the development of agriculture across the country.

We work with a kaleidoscope of producer groups, including the Canadian Federation of Agriculture (CFA), Canadian Young Farmers Forum (CYFF), Union des Producteurs Agricoles (UPA), Keystone Agricultural Producers (KAP) and the Canadian Farm Business Management Council (CFBMC), to name a few. We are proud to support mutual efforts that enhance agriculture and agribusiness.

When the worst drought in years hit the prairies, we made a $15,000 donation to the Agriculture Producers Association of Saskatchewan (APAS), in support of their Feed Connection Trust Fund.

The trust fund helped to offset the cost to transport feed into drought areas of the province and to transport livestock into areas with surplus feed.

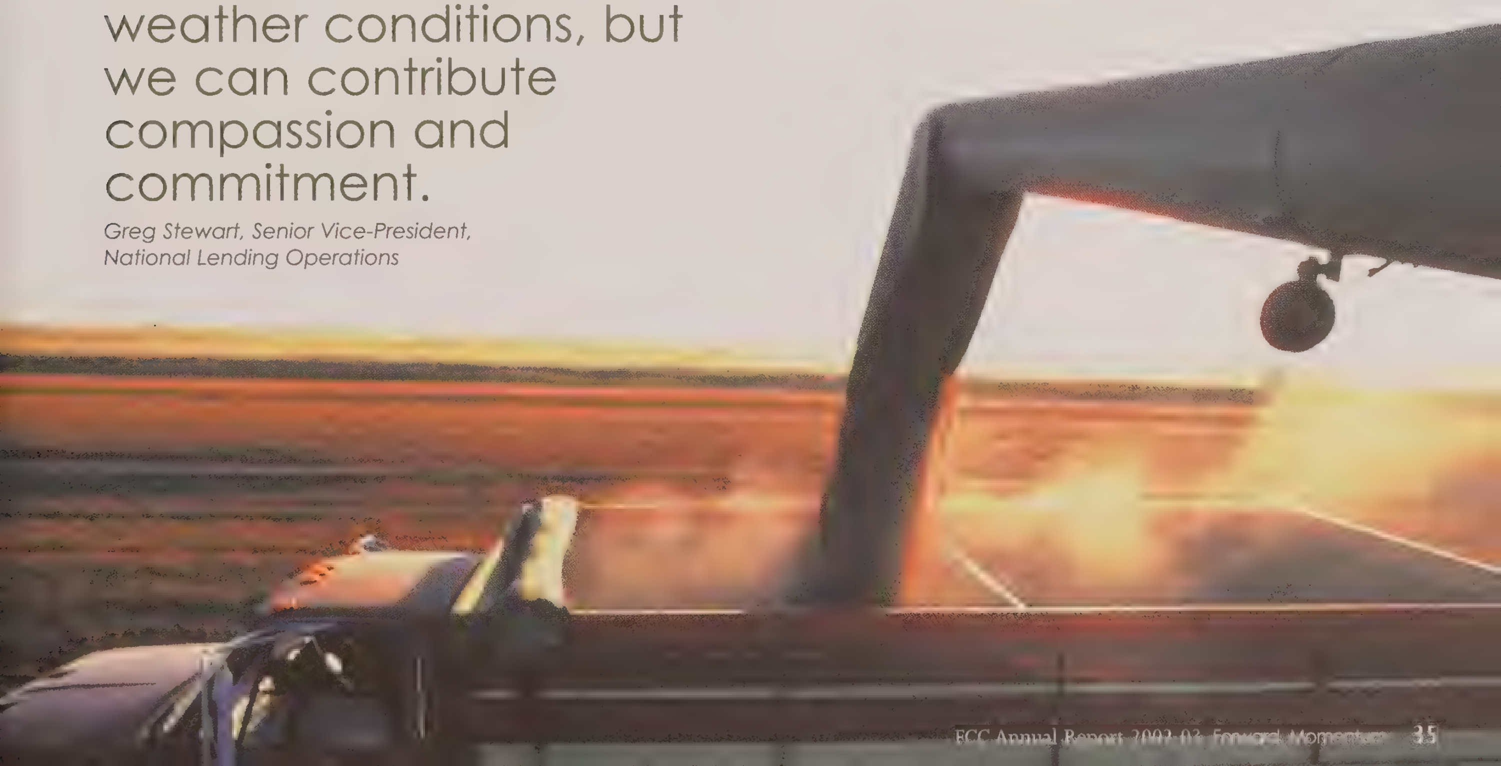
FCC donated $50,000 to HayWest to ship rail cars full of hay from the east to drought-stricken farmers in the west.

On the Thanksgiving weekend, the Say Hay organization held two charity concerts in aid of Alberta's drought-stricken farmers and ranchers, raising a total of $1.5 million. FCC donated $15,000 to help make these concerts a reality and create awareness of the impact of the drought.

We are building understanding and co-operation through our Industry Relations activities. With a clear focus and targeted initiatives, we are committed to achieving more in the future to the benefit of Canadian agriculture.

We can't change the weather conditions, but we can contribute compassion and commitment.

Greg Stewart, Senior Vice-President, National Lending Operations



FCC Ventures

Stimulating the industry

Access to capital is an important issue for producers and agribusiness operators in Canada. As the agricultural industry changes and evolves, they need access to alternate sources of funds – and substantially more financing.

The *Farm Credit Canada Act* allows FCC to offer venture capital financing either directly or in partnership with others to help grow agricultural and agribusiness operations.

The opportunities are significant. In 2001, the agricultural industry generated $36 billion of Canada's gross domestic product, yet accounted for less than one per cent of total venture capital disbursements. FCC Ventures was launched in the fall of 2002 with a mandate to change that.

Many profitable markets are emerging that hold great potential for Canadian agriculture. To get a good start, customers need access to large amounts of capital. FCC Ventures is focusing on providing equity and quasi-equity financing to small and medium-sized businesses in these areas:

- value-added food manufacturing and processing;
- development and manufacturing of agricultural equipment;
- commercial processing;
- commercial-scale farming;
- businesses that support the agricultural sector; and
- ag-biotech.

We don't expect immediate returns because we understand the cyclical nature of agriculture. We're also in a unique position to attract other venture capital investors to this area, either directly or through partnerships with us.

James Taylor, Vice-President, FCC Ventures

The momentum is being felt. Co-investment strategies already have been developed in partnership with private and institutional sources of funding, and an impressive number of business plans have been submitted for consideration.

Through venture capital funding, FCC is helping to finance strong, well-managed businesses related to agriculture, many of which are located in rural Canada, and that's both exciting and rewarding.

Investing in Agriculture

Management Discussion AND Analysis

Strong financial results in 2002-03 are expected to continue into the next fiscal year and beyond. This financial viability allows FCC to be self-sufficient in expanding service to the agriculture industry through increased lending and introduction of new services and products.

Overview 2002-03

- Portfolio up 14.2 per cent to $8.8 billion
- Loan approvals up 28.3 per cent to $3.1 billion
- Allowance for credit losses increased by $48.1 million
- Initial $2.0 million venture capital investment
- $6.4 billion short-term cumulative borrowings
- $2.9 billion long-term cumulative borrowings
- Net interest income increased to $269.3 million
- Efficiency ratio improved to 42.3 per cent
- Acquired Settler Computer Technologies Inc.

Future Outlook

- Portfolio expected to exceed $9.5 billion in 2003-04
- Anticipate over $2.8 billion in loan approvals in 2003-04
- Larger allowance for credit losses increasing with the portfolio
- Increase in venture capital investments
- Continued high credit rating allows FCC strong capital market presence
- Expanded business services including AgExpert
- Continued improvement to efficiency ratio
- Continued focus on primary producer

2002-03 ← [illegible] → Outlook

Key financial results
fiscal year ending March 31

$ millions	2003	2002
Loans receivable	8,812.6	7,715.8
Portfolio growth rate	14.2 %	11.7 %
Loan approvals	3,138.3	2,446.1
Loan renewal rate	97.3 %	95.0 %
Arrears	31.2	29.5
Net interest income	269.3	201.2
Net interest margin	3.14 %	2.66 %
Administration expenses	119.3	101.6
Efficiency ratio	42.3 %	48.4 %
Income before taxes	96.8	68.8
Return on equity*	12.2 %	8.7 %
Return on assets*	1.15 %	0.91 %
Debt-to-equity	9.7:1	9.6:1

* *before income tax*

- Portfolio growth of 14.2% or $1.1 billion.
- Loan approvals increased 28.3 percent or $692.2 million with year-over-year increases in all FCC business lines.
- $68.1 million growth in net interest income provided for a $28.0 million increase in income before taxes, which will be reinvested in agriculture in the future.
- Efficiency ratio improved for the fifth consecutive year, reflecting income growth, process improvements and cost management.
- Strong debt-to-equity ratio allows FCC flexibility to fund growth in agriculture and remain self-sustaining.
- Strong results in key financial ratios.

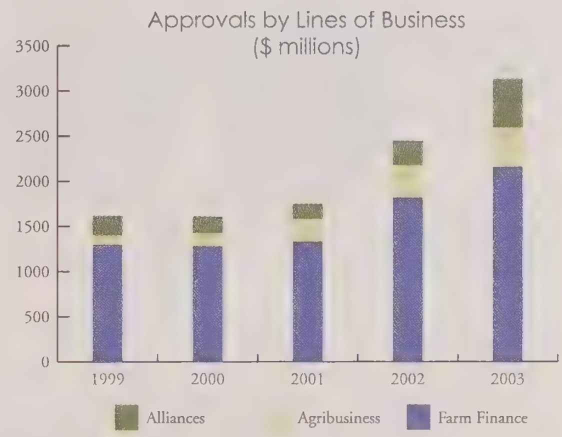
Balance sheet

Record-setting year

The loan portfolio grew 14.2 per cent to a record $8.8 billion in 2002-03, up from $7.7 billion in 2001-02. FCC also approved a record $3.1 billion in loans for the year compared to $2.4 billion in 2001-02. This, combined with a 97.3 per cent renewal rate on loans coming due, accounts for the significant portfolio growth. These results indicate the value customers place on FCC's suite of products and staff knowledge of customer needs.

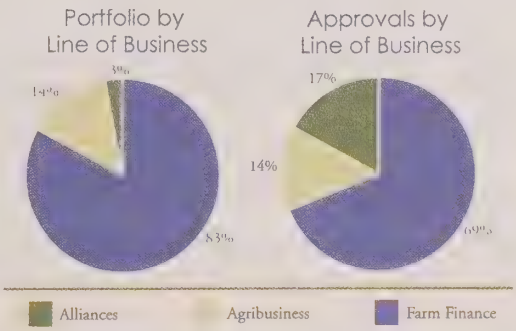
Growth based on primary producer as main focus

FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness, and Alliances. For more than 40 years, FCC has served the primary producer. Although FCC has expanded to meet the changing needs of the industry, supporting primary producers has continued to be the main focus. Lending to primary producers is done through all three lines of business with $2.9 billion or 90.9 per cent of total 2002-03 approvals directed at primary producers. As of March 31, 2003, lending to primary producers accounted for 90.5 per cent of FCC's total portfolio.



Farm Finance *(defined as farming that produces raw commodities, e.g.: crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes forestry and aquaculture)*

During the year, Farm Finance accounted for 68.8 per cent of all loan approvals, increasing to $2.2 billion from $1.8 billion. As of March 31, 2003, primary producer loans represented 98.8 per cent of the Farm Finance portfolio.



Agribusiness *(includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as Agribusiness)*

Agribusiness loan approvals grew to $436.9 million in 2002-03 from $357.8 million in 2001-02. This increase demonstrates ongoing commitment to Agribusiness customers. Through FCC guidance, expertise and financial solutions these customers are able to grow and diversify in their target markets.

The corporation finances a wide range of agriculture-related businesses on both the input and output sides of primary production. This includes enterprises from feed operations to food processing and agricultural by-product manufacturing. The legislative mandate change approved in 2001 allows FCC to lend to agribusiness customers that are not primary producers. FCC has been successful in expanding into this new market. Approvals to non-primary producers increased to 58.8 per cent of total Agribusiness approvals in 2002-03 from 54.0 per cent in 2001-02. As of March 31, 2003, loans to primary producers made up 40.8 per cent of the total Agribusiness loan portfolio.

Alliances *(relationships between FCC and other agricultural or financial organizations designed to pool talents and provide expanded access to services for primary producers)*

During the year, FCC continued to grow its Alliance lending portfolio with loan approvals of $542.9 million, compared to $270.1 million in 2001-02.

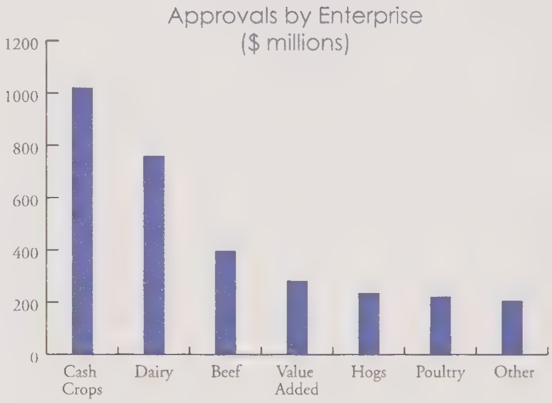
FCC continues to develop Alliance partnerships as a means of expanding FCC service offerings. Innovative relationships allow FCC to serve producers in agriculture through other distribution channels. For example, FCC has entered into Alliance partnerships which allow the corporation to support crop input financing using the Alliance partners' customer service network. Continuing to build on these and other opportunities through partnerships is an important part of FCC's future.

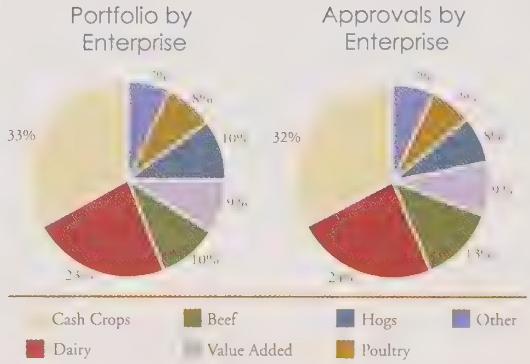
Continued portfolio diversification

FCC lends to all agricultural sectors across Canada grouped into seven major categories. Strong portfolio diversification across these categories is critical in managing the risk and financial performance of the corporation during cyclical and economic swings.

Total portfolio of the two major agricultural sectors, cash crops and dairy, has decreased to 56.3 per cent compared to 58.3 per cent last year. This is the result of the shifting lending mix to beef and value-added enterprises, both of which increased as a percentage of total approvals for the year.

FCC tailors new products to respond to customer and sector needs, even if markets for these products are initially limited. This approach grows the portfolio in smaller sectors and increases the diversification of the portfolio overall.



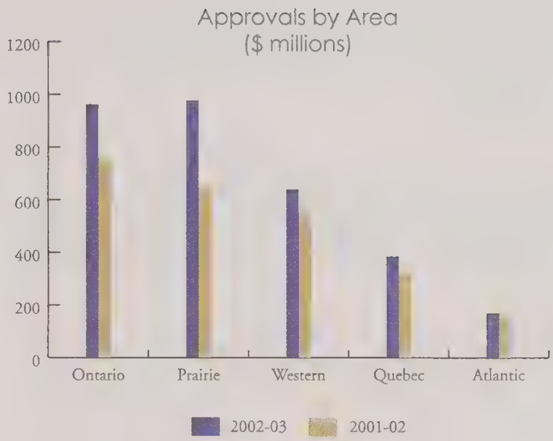


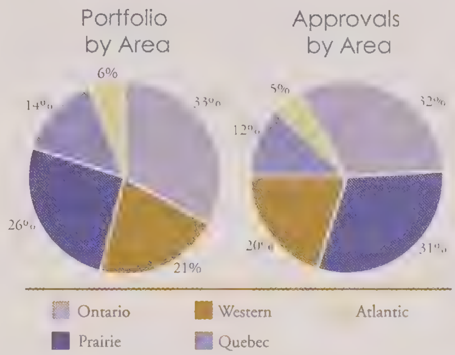
Increased lending from coast to coast

FCC offices are located in close to 100 rural communities from coast to coast. This promotes the geographically diverse portfolio necessary to limit portfolio risk.

FCC experienced an increase in loans approved over the previous year in all areas of the country. The Prairie and Ontario areas experienced the largest increases, with \$333.2 million and \$205.2 million more approvals respectively. The large increase in the Prairie area was in the cash crop enterprise and the increase in the Ontario area was in the dairy and poultry enterprises.

Overall portfolio growth of 14.2 per cent in 2002-03 is due primarily to significant increases in the Ontario area (19.8 per cent) and Western area (15.6 per cent), a reflection of growth in the dairy, poultry and beef industries in these areas.





FCC makes first venture capital investment

FCC stepped into the agricultural venture capital business in 2002-03 with the launch of FCC Ventures. This division of the corporation was formed to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

FCC Ventures targets small to medium-sized firms with high-growth potential. In 2002-03, the division entered this market by making an initial investment totaling \$2.0 million. Further investments are planned in the future. It is intended that these investments will act as a catalyst to attract other venture capital investors into agriculture across Canada.

FCC purchases agricultural software firm

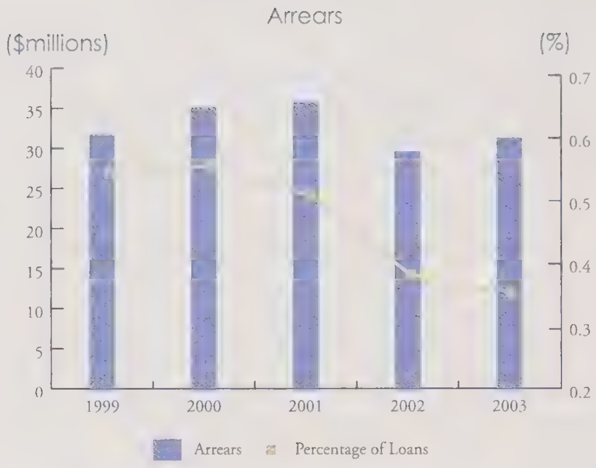
On October 28, 2002, FCC acquired 100 per cent of the outstanding common shares of Settler Computer Technologies Inc. This included rights to AgExpert™, Canada's leading agricultural management software.

AgExpert™ provides software tools, training and support that transform data into management information, primarily in the areas of agricultural accounting and financial management, as well as production planning and analysis. The purchase and marketing of AgExpert™ complements FCC's other service offerings to Canadian farmers by providing a tool to assist with farm business management.

Impaired loans and arrears

Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest.

Impaired loan balances at the end of 2002-03 totaled $142.9 million, compared to $127.6 million in the previous year. Impaired loans as a percentage of loans receivable was virtually unchanged at 1.6 per cent from 1.7 per cent in 2001-02. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in developing solutions to help customers through difficult times. Although arrears increased in dollar terms from $29.5 million in 2001-02 to $31.2 million in 2002-2003, arrears as a percentage of loans receivable decreased over that same timeframe.



General unallocated – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio which have not yet manifested themselves in specific loans.

The allowance as a percentage of loans receivable increased to 3.92 per cent in 2002-03 compared to 3.85 per cent for the prior year. The allowance for credit losses increased by 16.2 per cent to $345.5 million from $297.3 million in 2001-02. These results do not reflect a decrease in the overall credit quality of the portfolio, but are the normal outcome of the growth in the portfolio and considered prudent given market conditions.

Allowance for credit losses

Allowance for credit losses is management's best estimate of credit losses in the loans receivable portfolio (described further in note 2 to the financial statements).

The allowance for credit losses has three components:

Specific – provides for probable losses on specific loans which have become impaired.

General allocated – management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.

FCC funds over $9 billion in 2002-03

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of under one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity.

The outstanding short-term borrowings at March 31, 2003, were $1.5 billion, compared to $2.1 billion as at March 31, 2002. This is the result of an increase in long-term, floating rate structured note issuances supporting variable rate lending.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2002-03, FCC borrowed a total of $2.9 billion in medium and long-term funds, which is up significantly from $2.4 billion in 2001-02. The increase is due to higher levels of debt maturing in the year, increased structured note issuances and portfolio growth. In 2002-03, $2.4 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes.

FCC also issued $491.4 million in the EMTN market, up from $23.8 million in 2001-02. Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. FCC's credit ratings are detailed below. During 2002-03, the corporation's foreign debt ratings were increased by Moody's and Standard & Poor's as a result of the upgrade of the Government of Canada's foreign debt rating. Moody's also upgraded FCC's long-term domestic rating, citing FCC's sound financial fundamentals and governance framework as the main reasons for the change.

	Domestic debt		Foreign debt	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC intends to pursue opportunities to diversify funding sources and access cost-effective capital market funds. Such initiatives would be established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Income statement

Net interest income grows to support portfolio growth

Net interest income (NII) is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

NII increased to $269.3 million from $201.2 million last fiscal year, a total of 33.8%. The major factors contributing to this increase are:

- a larger portfolio – the loans receivable portfolio for 2002-03 is up by $1.1 billion over 2001-02, which contributed $35.2 million more net interest income; and
- movements in interest rates – lower interest expense more than offsets lower interest revenue, increasing net interest income by $32.9 million. This also reflects the benefit of the corporation's prepayment of high interest rate debt in prior years.

The net interest income margin is the net interest income expressed as a percentage of the average total assets. It is intended to cover credit risks and administration expenses as well as yield sufficient profit to enable the corporation to remain financially viable and sustain support for agriculture.

Provision for credit losses increases with portfolio growth

The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

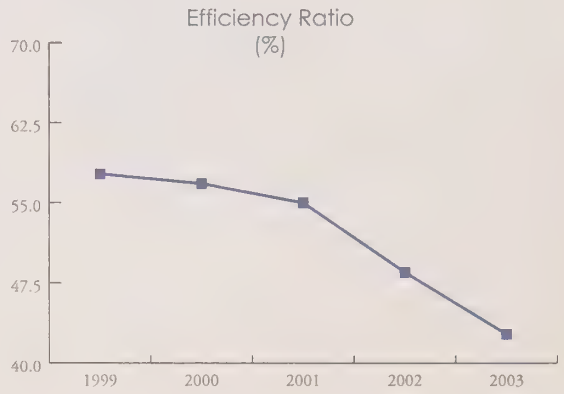
The provision for credit losses increased to $67.2 million in 2002-03 from $45.5 million the previous year as a result of a larger portfolio. Further provisions are anticipated in future years given expected portfolio growth and uncertainty in general economic conditions.

Net interest income and margin

$ millions	2003	2002
Interest income	$ 558.1	$ 544.9
Interest expense	288.8	343.7
Net interest income	$ 269.3	$ 201.2
Average total assets	$ 8,567.7	$ 7,566.5
Net interest margin	3.14 %	2.66 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 35.2	$ 25.5
Movement in rates	32.9	11.2
Total change to net interest income	$ 68.1	$ 36.7

Efficiency ratio improves for fifth consecutive year

Despite 33.8 per cent growth in net interest income in 2002-03, administration expenses increased by only 17.4 per cent.



This improved the efficiency ratio, a measure of how well resources are used to generate income, to 42.3 per cent in 2002-03 compared to 48.4 per cent in the previous year.

FCC systematically builds and leverages its agricultural expertise, keeping service levels high while remaining cost efficient. FCC is committed to providing products and services to help agricultural operators succeed throughout the life cycle of their business through:

- continuously improving product and service delivery;
- offering a variety of service channels, including the Internet, for improved service to customers; and
- continuous quality improvement.

The improvement in the efficiency ratio reflects the benefits derived from combined efforts in 2002-03 and previous years. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending and enhanced product support, market development and customer service.

FCC exempt from income tax

In its December 10, 2001, Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences are no longer available to the corporation as deductions against future liabilities and loss carry-forwards that were previously recognized in the financial statements are no longer available. As a result, the future income tax asset no longer has value to the corporation and was removed from the balance sheet at March 31, 2002.

Other fees and income

Revenue from other fees and income decreased to $14.0 million in 2002-03 compared to $14.7 million in the previous year. This revenue includes fees associated with lending operations as well as net lease and real estate income. Net lease and real estate income continues to decline with the quantity of land held by the corporation. Fees from lending operations are increasing with the size of the portfolio.

Net income improves FCC's future ability to lend

Income before income taxes for the year increased to $96.8 million from $68.8 million the previous year. This increase was primarily the result of higher net interest income driven by a larger portfolio and movements in interest rates. Net income allows the corporation to play an increasing role in the industry since all income is reinvested into agriculture through financing portfolio growth and new product development.

Managing risk

Risk HIGHLIGHTS

- Enhanced the integration of credit assessment and portfolio management tools within the loan origination system.
- Special Credit division assigned to resolve accounts experiencing challenges.
- Met all risk measurement targets.
- Treasury enhanced its mitigation of credit risk associated with derivative instruments by entering into collateral management agreements known as Credit Support Annexes with key counterparties.

Overview

Risk management is key to protecting FCC's customers, business interests and future viability. FCC is exposed to many different risks in its dual role as a self-financing financial institution and a vehicle for federal public policy.

The first concern of the Board of Directors and senior management is **strategic risk**. Failure to properly execute strategy to meet the needs of the marketplace or FCC stakeholders can dramatically impact the corporation's business. Without an appropriate overall business strategy, the corporation's other efforts at risk mitigation could be compromised as well.

FCC business strategy addresses three specific types of business risks: credit risk, market risk, and operational risk.

Market risk

The potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

Credit risk

The risk of loss due to the failure of a counterparty to meet its financial obligations. This risk includes:

- risk of borrower defaults and associated losses; and
- risk of failure of other counterparties to honor contract arrangements.

Credit risk is inherent both in FCC's lending portfolio and in its funding and investing programs.

Operational risk

All risks inherent in the operational activities of the corporation:

- control and compliance;
- policies, procedures and processes;
- fraudulent or unauthorized activities;
- information technology;
- e-business; and
- new or unproven business.

Integrated

In 2002-03, FCC continued to develop the use of an integrated approach to risk management. A corporate-wide scan was undertaken to develop a central database of internal and external risks to FCC. Results of this scan will be used to review and validate existing risk management practices at FCC and to identify gaps in current risk management practices.

The integrated risk function maintains the responsibility to identify and assess risks to the corporation throughout the year and work with functional areas to implement measures to effectively manage and mitigate these risks.

Integrated risk management

An organization-wide process that addresses business risks in an integrated fashion, to optimize returns from risk-taking activities.

Objectives

- Strengthen risk management at FCC through timely identification, assessment and prioritization of risks to the corporation, which leads to better management, measurement and reporting of risk.
- Build on the risk culture at FCC through increased staff awareness of risks to the corporation and integrating risk management into day-to-day decision making at all levels of FCC.

Responsibility for risk management

No one division or unit is responsible for managing all the risks FCC faces. Roles are given to divisions and teams with specialized expertise to address various risk matters.

- Field Offices are the first place where risk management is engaged. Staff are trained to handle relevant aspects of credit risk and operational risk management.
- The Risk Management division manages transactional credit risk. The Credit Policy department reviews and manages lending and loan administration policies, communicates policy changes to staff, and works to ensure that FCC's credit policies maintain an appropriate balance between flexibility and risk mitigation. The Risk Management Centres are responsible for delegation of authorities, credit authorization, customer and loan monitoring, and also participate in field office credit audits. Valuation Services staff research land sales, maintain benchmark data on land values, and appraise the value of FCC real estate security with particular emphasis on specialized enterprises and agribusinesses. Special Credit resolves accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit and default loss allowances. Portfolio risk is measured primarily with the Risk Pricing and Scoring System. The Board approves the Portfolio Visions which includes the credit risk strategy and portfolio diversification including enterprise, geography, exposure and risk.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of credit, liquidity and market risks at the executive level. The Vice-President and Treasurer reports to the Board on a quarterly basis.
- The Corporate Audit division is responsible for assessing compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury functions.

Credit risk

In 2002-03, several initiatives were undertaken to support credit risk management at FCC, including the enhancements of a Credit Application Scorecard and the Risk Scoring and Pricing System. Continued improvements of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. The portfolio vision also includes targets for the performance and structure of the loan portfolio that the corporation desires.

A revised eligibility policy based on the new FCC Act was put in place during the fiscal year, allowing staff to serve a wider spectrum of agribusinesses while keeping a focus on sectors emphasized by the portfolio diversification strategy. The account review policy was revised to emphasize the review of larger and higher-risk accounts. The policy on large loans was updated to focus on connection exposure rather than loan size, and to intensify the review and due diligence on large or complex accounts as well as on large construction projects.

Risk Scoring and Pricing System (RSPS) – a more comprehensive measurement of credit risk

- Fully integrated with centralized loan origination systems.
- Regular, automatic updates ensure information used for risk scoring and pricing is current and relevant.
- Provides the information necessary to develop future portfolio diversification strategies and portfolio vision.
- The ability to map credit risk to any desired level of aggregation improves portfolio analysis capabilities and the risk-return relationship.
- Provides the basis for calculation of allowance for loan losses.

During the fiscal year, FCC maintained its emphasis on analyzing environmental risk and ensuring that this risk is adequately mitigated. Risk Management played a leading role in this initiative through the development and implementation of sound environmental policies and training programs for lending staff and serving as the focal point for determining actions required on specific loan files.

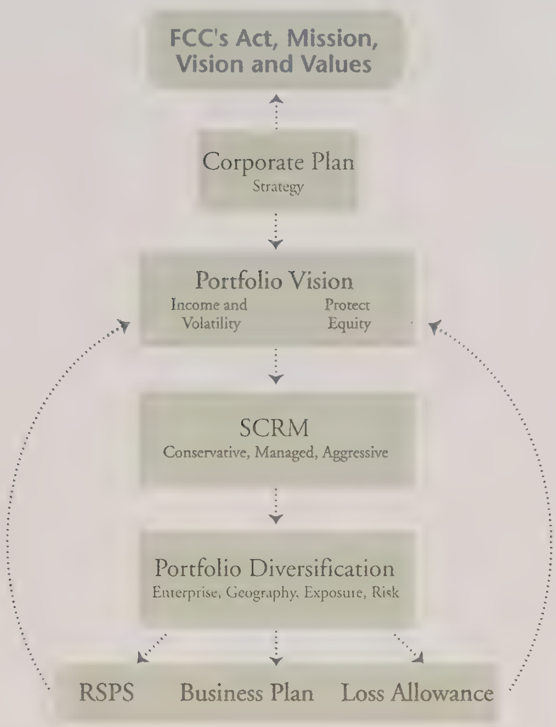
In 2000-01 FCC developed an internal risk-rating system, the Risk Scoring and Pricing System (RSPS). This tool helps FCC employees evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio. RSPS allows better separation of risk categories, reflecting more accurately the numerous levels of potential risk. It is continually updated with the information necessary to rate the different risks associated with individual loans, customer attributes, and the agricultural sector. In 2002-03 RSPS was enhanced in how it allocates administration costs and return on investment of the loan portfolio.

The Strategic Credit Risk Model (SCRM) measures overall credit risk strategy. It reflects the impact of corporate priorities, credit culture and risk controls to optimize financial performance while maintaining credit performance within an acceptable range of volatility. This overall risk is calculated based on three broad categories whose risk is scored as low, moderate or high:

- transaction risk: the risk presented by individual loans and the customers who support these loans
- intrinsic risk: the risk presented by the industries, lines of business or enterprises from which the income supporting loan repayment is drawn
- concentration risk: the risk of various types of concentrations in the overall portfolio

The model weighs the three different risks and their severity to provide a score which indicates overall credit risk strategy as conservative, managed or aggressive. FCC's goal is to maintain a managed credit risk strategy, which translates to a moderate level of volatility in overall credit risk and financial performance.

Portfolio Management Overview



Two years ago, the mandate of Special Credit was formalized with new policies to deal with accounts in difficulty where it was considered likely that financial performance could be enhanced to again establish satisfactory credit rating. Earlier identification of substandard performing loan accounts was considered essential to enable increased monitoring and evaluation of alternatives. The staff expertise in Special Credit is now well recognized by operations staff, resulting in more frequent loan transfers.

The goal of returning accounts to the loan portfolio as performing accounts was largely achieved during the past year. Over half of the accounts handled by Special Credit were favorably resolved and are performing well.

The performance on accounts not returned as performing was also positive. Almost 80% of these were resolved on a voluntary basis with the customer. Most of the accounts resolved by Special Credit were done so without incurring a loss to FCC. Of the total resolved during the year, 88% did not result in a loss.

Strategic Credit Risk Model (SCRM) – March 31, 2003, results

In all three risk categories – transaction, intrinsic and concentration – risk was determined to be moderate, resulting in a managed level of overall strategic credit risk.

These results show steady improvement in overall credit risk exposure over the past five years, indicating that credit risk has been managed successfully. Comparisons made to results from mid-1980s data indicate significant progress in reducing overall levels of credit risk.

Field Audits

FCC uses a Field Operations Audit Process to assess risk and performance of business operations at the field level. Together, the Corporate Audit and Risk Management divisions participate in the Field Operations Audit program, which provides an independent assessment of quality and risk associated with lending operations. The program was established to examine lending activities and provide learning opportunities for employees to improve their performance in the areas of risk assessment and mitigation, compliance to lending policy, data integrity and other quality assurance activities.

The scope of the Field Operations Audit program includes the following key components:

- compliance to lending and corporate policies;
- documentation, financial analysis and risk mitigation;
- an assurance that environmental policies are being adhered to;
- an assessment of lending decisions; and
- internal control activities.

Market risk

Treasury manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by FCC's Board of Directors. Market risk management policies are approved and regularly reviewed by FCC's Asset/Liability Committee (ALCO) and the Board. The Treasury division is responsible for managing market risk and reports monthly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is not to be exposed to foreign exchange rate risk and all foreign currency borrowings are fully hedged at the time of issuance.

Interest rate risk

FCC is exposed to interest rate risk (IRR) as a result of a mismatch or gap between assets, liabilities and off-balance sheet instruments because of different renewal and/or re-pricing dates. IRR is the potential impact of changes in interest rates on FCC's earnings and economic value. Exposure to IRR is monitored and managed so as to avoid material adverse impacts.

Asset/liability management

FCC manages IRR exposures with an asset/liability model. The model simulates changes in net interest income (NII) and market value portfolio equity (MVPE) for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2003, an immediate two per cent increase (decrease) in interest rates across all maturities would affect NII and MVPE as follows:

	2% increase	2% decrease
	$ millions	
NII variability	+13	-15
Economic value variability (MVPE)	-63	+57

As of March 31, 2003, FCC is within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

The Treasury division uses derivative financial instruments, primarily swaps and options, to manage interest rate and foreign exchange risk arising from funding activities. The division manages credit risk associated with derivative instruments using Board approved exposure limits and deals only with high quality counterparties with whom FCC has entered into master International Swap and Derivative Association (ISDA) agreements. The corporation has further strengthened its credit risk management practices in 2002-03 by entering into collateral management agreements, known as Credit Support Annexes with key counterparties. Derivative counterparty positions and credit risk exposures are monitored, managed and regularly reported to ALCO, FCC's Board of Directors and the Department of Finance.

In response to FCC's increased variable rate loan volume in 2002-03, Treasury successfully implemented a hedging strategy designed to stabilize NII margin.

Liquidity risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- *a liquid investment portfolio* – Cash and marketable securities equal to $403.5 million were on hand at March 31, 2003 (March 31, 2002 – $349.6 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities as well as limits the size and composition of the total investment portfolio;
- *access to commercial paper markets* – FCC's domestic and European commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements.
- access to a $10 million bank operating line of credit and a $50 million revolving credit facility.

Outlook - risk

- Continue to enhance the Integrated Risk Management framework.
- Continue to enhance the internal risk-rating system.
- Continue to update and review Market Risk Policies and further strengthen Credit Risk Management practices.

Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan

John J. Ryan
President and
Chief Executive Officer

Moyez Somani

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 9, 2003

Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2003, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the by-laws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 9, 2003

Balance Sheet

As at March 31 *(thousands of dollars)*

	2003	2002
Assets		
Cash and cash equivalents	$ 146,683	$ 190,022
Temporary investments (Note 4)	256,782	159,538
Accounts receivable	83,833	83,833
	487,298	433,393
Loans receivable – net (Notes 5 and 6)	8,467,106	7,418,455
Venture capital investments (Note 7)	2,000	–
	8,469,106	7,418,455
Real estate acquired in settlement of loans	3,470	10,113
Equipment and leasehold improvements (Note 8)	26,962	22,006
Other assets	4,325	11
	34,757	32,130
Total Assets	$ 8,991,161	$ 7,883,978
Liabilities		
Accounts payable and accrued liabilities	$ 25,554	$ 21,950
Accrued interest on borrowings	75,175	96,423
	100,729	118,373
Borrowings (Note 9)		
Short-term debt	1,512,419	2,050,957
Long-term debt	6,494,467	4,948,182
	8,006,886	6,999,139
Other liabilities and deferred fees	40,775	20,528
	8,148,390	7,138,040
Equity		
Capital	507,725	507,725
Retained earnings	335,046	238,213
	842,771	745,938
Total Liabilities and Shareholder's Equity	$ 8,991,161	$ 7,883,978

Commitments and contingent liabilities (Note 15). *The accompanying notes are an integral part of the financial statements.*

Approved:

Rosemary Davis

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 *(thousands of dollars)*

		2003		2002
Interest Income				
Loans receivable	$	545,354	$	527,616
Investments		12,814		17,266
		558,168		544,882
Interest expense				
Short-term debt		52,068		79,727
Long-term debt		236,774		263,981
Net interest income		269,326		201,174
Provision for credit losses (Note 6)		67,157		45,500
Net interest income after provision for credit losses		202,169		155,674
Other Fees and Income		13,948		14,715
Income before Administration Expenses		216,117		170,389
Administration expenses (Note 10)		119,284		101,616
Income before Taxes		96,833		68,773
Current income taxes (Note 11)		–		1,885
Future income taxes (Note 11)		–		25,625
Income taxes		–		27,510
Net Income		96,833		41,263
Retained earnings, beginning of year		238,213		324,852
Dividend		–		(754)
Adjustment for future income taxes (Note 11)		–		(127,148)
Retained Earnings, end of year	$	335,046	$	238,213

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 *(thousands of dollars)*

		2003		2002
Operating Activities				
Net income	$	96,833	$	41,263
Items not involving cash and cash equivalents:				
Future income taxes		–		25,625
Provision for credit losses (Note 6)		67,157		45,500
Amortization of bond premiums/discounts		39,415		36,772
Change in accrued interest receivable		7,189		8,071
Change in accrued interest payable		(20,135)		(24,498)
Other		(10,565)		(54,739)
Cash provided by operating activities		179,894		77,994
Investing Activities				
Loans receivable disbursed		(2,854,300)		(2,293,800)
Loans receivable repaid		1,742,181		1,459,797
Change in temporary investments		(97,244)		(139,660)
Venture capital investments disbursed		(2,000)		–
Change in real estate held		6,640		15,005
Other		15,712		(11,649)
Cash used in investing activities		(1,189,011)		(970,307)
Financing Activities				
Long-term debt repaid to Canada		–		(578,491)
Long-term debt from capital markets		2,812,132		2,078,122
Long-term debt repaid to capital markets		(1,305,262)		(848,708)
Change in short-term debt		(541,092)		149,783
Dividend paid		–		(754)
Cash provided by financing activities		965,778		799,952
Decrease in cash and cash equivalents		(43,339)		(92,361)
Cash and cash equivalents, beginning of year		190,022		282,383
Cash and cash equivalents, end of year	$	146,683	$	190,022
Supplemental Information				
Cash interest paid during the year	$	310,090	$	379,115

The accompanying notes are an integral part of the financial statements.

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues Farm Credit Canada with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2003, capital payments received from the Government of Canada amounted to $1,168.3 million (2002 – $1,168.3 million). The statutory limit for that same period was $1,175.0 million (2002 – $1,175.0 million).

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2003, the corporation's total liabilities were 9.7 times the equity of $842.8 million (2002 – 9.6 times the equity of $745.9 million).

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances, net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 to 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses and allowance.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans, on a straight line basis.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement of funds to the borrower.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the internal criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan by loan basis.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions that have occurred, but have not yet manifested themselves as observable deterioration in credit quality in specific loans.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and fair value, less cost to sell. Fair value less cost to sell is the amount which could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated cost of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real property held for sale are included as a component of other fees and income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other fees and income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost, with interest and dividends included in income when received. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. When the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses, are reported net of the exchange gains and losses from currency exchange agreements. These amounts are included as a component of interest income or expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognized on the balance sheet upon issuance and removed when they expire or are terminated. Amounts due from counterparties are reflected as a component of accounts receivable and amounts due to counterparties are reflected as a component of accounts payable and accrued liabilities. Receipts and payments are accounted for on an accrual basis in the same period and the same category to which the contract is related.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included on the balance sheet in accounts receivable or other liabilities and deferred fees, respectively.

Employee future benefits

Pension and post-retirement benefits

The corporation accrues its obligations under employee benefit plans including pension plans and post-retirement plans other than pensions and the related costs, net of plan assets. The corporation has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and
- for the purpose of calculating the expected return on plan assets, those assets are valued at market value.

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

Actuarial valuations of the pension plans are made periodically for accounting purposes based on the market-related discount rate. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Post-employment benefits

The corporation accrues its obligations for post-employment benefits. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on services.

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Use of estimates

The preparation of the corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments. Actual results could differ from those estimates.

3. Acquisition

On October 28, 2002, a wholly owned subsidiary of the corporation, 4117468 Canada Ltd., acquired 100 percent of the issued and outstanding shares of Settler Computer Technologies Inc., a software developer specializing in agricultural accounting software. 4117468 Canada Ltd. and Settler Computer Technologies Inc. were amalgamated on October 30, 2002, continuing as Settler Computer Technologies Inc. The results of Settler Computer Technologies Inc. have been included in these financial statements since the date of acquisition.

The aggregate purchase price of $2.2 million was paid in cash of $1.3 million and $0.9 million in notes payable. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

(thousands of dollars)				
Current assets	$	39		
Equipment		85		
Intangible assets		611		
Goodwill		2,705		
Total assets acquired			$	3,440
Total liabilities assumed				(1,239)
Net assets acquired			$	2,201

Of the $611,000 in acquired intangible assets, $595,000 was assigned to software and market development costs and the remainder to acquired customer lists.

Pursuant to an Order in Council, all of the assets of Settler Computer Technologies Inc. will be transferred to the corporation within one year of the acquisition date and Settler Computer Technologies Inc. will be dissolved.

4. Temporary investments

(thousands of dollars)

		2003		2002
Issued or guaranteed by Canada	$	37,814	$	148,380
Yield (%)		3.11%		2.61%
Other institutions	$	218,968	$	11,158
Yield (%)		3.10%		2.14%
	$	256,782	$	159,538

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1L or higher.
As at March 31, 2003, the largest total investment in any one institution was $62.0 million (2002 – $64.8 million).

5. Loans receivable

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2003. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(thousands of dollars except %)

2003

	Under 1 year	1 to 5 years	Over 5 years	Total
Floating	$ 128,689	$ 3,596,518	$ 463,616	$ 4,188,823
Yield	5.82%	5.65%	5.67%	5.66%
Fixed	867,845	2,987,779	625,210	4,480,834
Yield	7.11%	7.57%	8.13%	7.56%
Performing loans	$ 996,534	$ 6,584,297	$ 1,088,826	8,669,657
Impaired				142,934
Loans receivable – gross				8,812,591
Allowance for credit losses				(345,485)
Loans receivable – net				$ 8,467,106

2002

	Under 1 year	1 to 5 years	Over 5 years	Total
Floating	$ 168,634	$ 2,408,103	$ 379,791	$ 2,956,528
Yield	4.72%	4.66%	4.62%	4.66%
Fixed	770,751	3,121,721	739,157	4,631,629
Yield	7.10%	7.82%	8.37%	7.79%
Performing loans	$ 939,385	$ 5,529,824	$ 1,118,948	7,588,157
Impaired				127,636
Loans receivable – gross				7,715,793
Allowance for credit losses				(297,338)
Loans receivable – net				$ 7,418,455

Management estimates that annually, over the next three years, approximately 7.5% (2002 – approximately 8.3%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2003, $34.3 million (2002 – $25.1 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. The corporation monitors the concentration of loans and believes it does not have any significant concentrations in any specific sector or location. The concentration of performing loans by sector and geographic area are displayed in the tables on page 63.

Sector distribution
(thousands of dollars except %)

	2003		2002	
Cash Crops	$ 2,913,005	33.6%	$ 2,754,501	36.3%
Dairy	1,976,682	22.8%	1,661,806	21.9%
Beef	866,966	10.0%	773,992	10.2%
Value Added	823,617	9.5%	561,524	7.4%
Hogs	849,626	9.8%	705,699	9.3%
Poultry	650,224	7.5%	553,935	7.3%
Other	589,537	6.8%	576,700	7.6%
Performing loans	$ 8,669,657	100.0%	$ 7,588,157	100.0%

Geographic distribution
(thousands of dollars except %)

	2003		2002	
Western	$ 1,794,619	20.7%	$ 1,563,160	20.6%
Prairie	2,236,771	25.8%	2,063,979	27.2%
Ontario	2,904,335	33.5%	2,420,622	31.9%
Quebec	1,170,404	13.5%	1,039,578	13.7%
Atlantic	563,528	6.5%	500,818	6.6%
Performing loans	$ 8,669,657	100.0%	$ 7,588,157	100.0%

6. Allowance for credit losses

(thousands of dollars)

	2003	2002
Balance, beginning of year	$ 297,338	$ 269,250
Write-offs, net of recoveries	(19,010)	(17,412)
Provision for credit losses	67,157	45,500
Balance, end of year	$ 345,485	$ 297,338
Specific allowance	$ 47,858	$ 39,688
General allocated and unallocated allowance	297,627	257,650
Balance, end of year	$ 345,485	$ 297,338

As at March 31, 2003, the total recorded investment in loans receivable against which a specific allowance has been identified was $142.9 million (2002 – $127.6 million). The general allowance was established against the remaining $8,669.7 million (2002 – $7,588.1 million) investment in loans receivable.

7. Venture capital

During the year, the corporation launched its venture capital activity, which provides investment, deal organization, structuring and portfolio management to the agricultural industry. Investments will be held for between 3 to 7 years through a variety of instruments. There was a single venture capital investment at March 31, 2003, in the distribution sector with a carrying value by type of investment as follows:

(thousands of dollars)

	2003	2002
Preferred shares	$ 1,000	$ –
Debentures	1,000	–
	$ 2,000	$ –

8. Equipment and leasehold improvements

(thousands of dollars)

	2003			2002
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 11,646	$ 5,569	$ 6,077	$ 4,520
Computer equipment and software	37,411	23,281	14,130	13,069
Leasehold improvements	12,783	6,028	6,755	4,417
	$ 61,840	$ 34,878	$ 26,962	$ 22,006

Administration expenses include $7.7 million (2002 – $6.8 million) of amortization of equipment and leasehold improvements.

9. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $1,512.4 million (2002 – $2,051.0 million). The effective interest rate on these notes ranges from 1.15% to 3.46% (2002 – 1.72% to 4.45%) with an average yield to maturity of 2.95% (2002 – 2.25%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 3, 2002, the corporation renewed a revolving credit facility providing access to funds in the amount of $50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2003, there were no draws on this facility.

The corporation also has a line of credit facility providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. As at March 31, 2003, there were no draws on this line of credit.

Long-term debt

(thousands of dollars)

	Stated interest rate (%)	2003	2002
Debt from capital markets, secured by notes payable in:			
Canadian dollars	0.00 – 9.00	$ 6,007,523	$ 4,901,371
United States dollars ($92,000)	4.00 – 8.49	135,311	–
Japanese yen (¥25.7 billion)	0.95 – 2.50	319,245	14,423
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
The Euro Top 100 Index		32,388	32,388
		$ 6,494,467	$ 4,948,182

Debt with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars. Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate debt instruments and on the fair value of fixed-rate debt instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's debt instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

	2003		2002	
Remaining term to repricing or maturity date	Carrying Value	Average Yield	Carrying Value	Average Yield
Within 1 year	$ 1,411,074	3.49%	$ 1,522,684	4.71%
1 to 5 years	3,254,493	4.60%	3,196,421	4,65%
over 5 years	1,897,950	4.00%	316,822	4.43%
	$ 6,563,517	4.05%	$ 5,035,927	4.66%

Long-term debt maturities are as follows:

(thousands of dollars)

	2003	2002
Amounts due:		
Within 1 year	$ 1,396,229	$ 1,496,153
From 1 – 2 years	1,134,260	1,439,238
From 2 – 3 years	1,075,576	809,561
From 3 – 4 years	495,131	688,240
From 4 – 5 years	515,288	203,688
Over 5 years	1,877,983	311,302
	$ 6,494,467	$ 4,948,182

Included in long-term debt is $1,369.9 million (2002 – $760.5 million) of instruments extendable beyond their original due dates and $632.9 million (2002 – $204.7 million) of callable debt. The redemption of these instruments is controllable by the corporation.

10. Administration expenses

(thousands of dollars)

	2003	2002
Personnel	$ 75,164	$ 66,786
Facilities and equipment	18,585	16,663
Professional and other	15,103	10,459
Travel and training	10,432	7,708
	$ 119,284	$ 101,616

11. Income taxes

In its December 10, 2001, Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences are no longer available to the corporation as deductions against future tax liabilities and loss carry-forwards that were previously recognized in the financial statements are no longer available. The future income tax asset no longer has value to the corporation and was removed through retained earnings at March 31, 2002, in the amount of $127.1 million.

12. Employee future benefits

The following table presents information related to the corporation's defined benefit plans including amounts recorded on the balance sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2002.

(thousands of dollars)

	2003 Pension benefits	**2002** Pension benefits	**2003** Other benefits	**2002** Other benefits
Change in accrued benefit obligation				
Balance, beginning of year	$ 102,722	$ 2,993	$ 15,655	$ 12,956
Current service cost	5,199	4,873	966	818
Interest cost	7,813	3,019	1,119	966
Employee contributions	2,103	1,690	–	–
Benefits paid	(2,311)	(336)	(577)	(488)
Net transfer in*	2,300	102,551	–	–
Actuarial (gain)/loss	9,183	(12,068)	713	1,403
Balance, end of year	$ 127,009	$ 102,722	$ 17,876	$ 15,655
Change in fair value of plan assets				
Balance, beginning of year	$ 113,192	$ 2,898	$ –	$ –
Actual return on plan assets	(193)	2,353	–	–
Employer contributions	5,903	4,036	–	–
Employee contributions	2,103	1,690	–	–
Benefits paid	(2,311)	(336)	–	–
Net transfer in*	2,300	102,551	–	–
Balance, end of year	$ 120,994	$ 113,192	$ –	$ –
Funded status				
Surplus (deficiency)	$ (6,015)	$ 10,470	$ (17,876)	$ (15,655)
Employer contributions after December 31	769	698	–	–
Unamortized net actuarial (gain)/loss	6,979	(11,157)	2,644	1,682
Accrued benefit asset (liability)	$ 1,733	$ 11	$ (15,232)	$ (13,973)
Net pension benefit expense				
Current service cost	$ 5,199	$ 4,873	$ 966	$ 818
Interest cost	7,813	3,019	1,119	966
Amortization of actuarial (gain)	–	–	(248)	–
Expected return on plan assets	(9,364)	(3,077)	–	–
Net pension benefit expense	$ 3,648	$ 4,815	$ 1,837	$ 1,784

*As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the *Public Service Superannuation Act* (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada which provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the remaining amount of the transfer has been recognized on an estimated basis at March 31, 2003.

The accrued benefit asset and liability are included in other assets and other liabilities and deferred fees respectively on the balance sheet.

The weighted-average assumptions at the measurement date used in the calculation of the corporation's benefit obligation are shown in the following table:

2003	**Pension benefits**	**Post-retirement benefits**	**Post-employment benefits**
Discount rate at the beginning of the period	7.00%	7.00%	6.25%
Discount rate at the end of the period	7.00%	7.00%	5.75%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%

2002	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate at the beginning of the period	7.25%	7.40%	6.30%
Discount rate at the end of the period	7.00%	7.00%	6.25%
Expected long-term rate of return on plan assets	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%

For measurement purposes, a 9.00% (2002 – 9.00%) increase in the per capita cost of covered hospital costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil ten years from the current year (2002 – to nil ten years from the current year) and remain at that level thereafter. For drug costs, a 11.00% (2002 – 10.00%) increase in the per capita cost was assumed to decrease gradually to 5.00% ten years from the current year (2002 – to 5.00% ten years from the current year) and remain at that level thereafter. For other health care costs, a 4.00% (2002 – 3.00%) per annum increase in the per capital costs was assumed.

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. In the year ended March 31, 2003, the expense was $1.6 million (2002 – $1.3 million).

13. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are more detailed descriptions of some of the more prominent derivative instruments utilized by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. The exchange of payments is recorded as an adjustment to interest income or expense on the related loan or debt instrument. The related amount payable to or receivable from the counterparty to the agreement is included as an adjustment to accrued interest.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Currency swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Bond forward agreements are transactions to either buy or sell financial instruments at specified prices and dates in the future.

Interest rate options are transactions that grant the buyer the right, but not obligation, to buy or sell a specific amount of currency, commodity or financial instrument at an agreed upon price.

Notional principal amounts outstanding at March 31, 2003, for the various derivative financial instruments were:

(thousands of dollars)

Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	**2003**	**2002**
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 3,950,000	$ 1,198,320	$ 1,752,400	$ 6,900,720	$ 546,000
Fixed	Floating	86,000	260,000	–	346,000	1,435,167
Fixed	Fixed	–	–	–	–	20,000
Floating	Floating	–	20,257	–	20,257	857
Equity index-linked	Floating	16,688	15,700	–	32,388	32,388
Bond forward		–	–	–	–	25,000
Option		–	–	–	–	5,000
		4,052,688	1,494,277	1,752,400	7,299,365	2,064,412
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	1,188	–	–	1,188	124,820
Total		$ 4,053,876	$ 1,494,277	$ 1,752,400	$ 7,300,553	$ 2,189,232

The counterparty credit risk associated with derivative financial instruments is the risk of loss due to the failure of a counterparty to discharge their obligations in a derivative financial instrument agreement. The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk is managed via the corporation's board approved Counterparty Risk Guidelines, which specifies the maximum exposure which the corporation will accept for each level of credit rating.

Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade and collateral provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes will be executed with all derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

These same derivatives can be measured by fair value and replacement costs as follows:

(thousands of dollars)

	2003		2002	
	Net Fair Value	Replacement Cost	Net Fair Value	Replacement Cost
Interest rate contracts	$ 2,559	$ 47,039	$ (27,042)	$ 11,349
Foreign currency contracts	(58)	–	4,992	4,992
Total	$ 2,501	$ 47,039	$ (22,050)	$ 16,341

Fair values for derivative financial instruments are estimated using present value techniques.

Replacement cost measures the maximum exposure to counterparty risk. The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2003, was $2,591.7 million (2002 – $742.7 million) and the largest replacement cost of contracts with any institution as at March 31, 2003, was $16.5 million (2002 – $7.0 million).

Amounts due from counterparties included in accounts receivable at March 31, 2003, were $21.1 million (2002 – $21.0 million). Amounts due to counterparties included in accounts payable and accrued liabilities at March 31, 2003, were $3.3 million (2002 – $4.7 million).

14. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date.

(thousands of dollars)

	2003		2002	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 146,683	$ 146,683	$ 190,022	$ 190,022
Temporary investments	256,782	256,782	159,538	159,538
Accounts receivable	83,833	83,833	83,833	83,833
Loans receivable	8,467,106	8,616,053	7,418,455	7,523,031
Venture capital investments	2,000	2,000	–	–
Other assets	4,325	4,325	11	11
Liabilities				
Accounts payable and accrued liabilities	$ 25,554	$ 25,554	$ 21,950	$ 21,950
Accrued interest on borrowings	75,175	75,175	96,423	96,423
Short-term debt	1,512,419	1,512,419	2,050,957	2,050,957
Long-term debt	6,494,467	6,566,439	4,948,182	4,967,920

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investment in debt is valued at book value, which approximates fair value.

- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.

- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

15. Commitments and contingent liabilities

Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)

Within 1 year	$	6,299
From 1 – 2 years		5,218
From 2 – 3 years		4,445
From 3 – 4 years		3,741
From 4 – 5 years		2,763
Over 5 years		13,111
	$	35,577

Other commitments and contingent liabilities

In the normal course of its business, the corporation enters into various commitments and contracts. As of March 31, 2003, the corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed $17.0 million (2002 – $16.7 million). In the event of a call upon the guarantees disclosed above, the corporation has recourse against its customers.

As at March 31, 2003, loans to farmers and agribusiness approved but undisbursed amounted to $275.0 million (2002 – $276.6 million). These loans were approved at an average interest rate of 6.23% (2002 – 5.15%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2003.

16. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

17. Segmented information

The corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10% of the corporation's receivables or interest revenues.

18. Comparative figures

Certain 2002 comparative figures have been restated to conform with the current year's presentation.

Senior Management Team

The **Senior Management Team's (SMT)** leadership and integrity ensure that FCC remains relevant to customers, contributes to the agricultural industry and fosters a high-performance workplace culture.

FCC's strength stems from its people

The Senior Management Team levers this strength in countless ways, utilizing their own and fellow employees' expertise to engage in long-term planning for the corporation. Following approval of the corporate strategic direction by the Board of Directors, it is the responsibility of SMT to successfully implement it, guiding and growing the corporation. SMT's enthusiasm inspires their co-workers to participate, learn, innovate and excel.

Members of SMT exemplify leadership, continually honing their competencies in this area through professional development and evaluation. SMT has undertaken extensive work in the areas of high-performance teamwork, accountability and issues resolution, in order to ensure FCC's stellar track record is sustainable. Personal commitment to leadership is demonstrated by consistently successful corporate results and individual growth. FCC believes that leadership occurs at all levels. SMT helps lead the way.

FCC follows the guidelines of Canada's *Financial Administration Act,* exercising care in decision-making and business activities. The corporate *Employee Code of Conduct* and *Ethics Policy* reflect the highest ethical standards of business, professional and personal conduct. SMT adheres to these high standards and champions them throughout the corporation.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2002-03, the salary range for the President and CEO was set at $229,500 to $270,000. The salary range for Executive Vice-Presidents was set at $153,325 to $283,515. The salary range for Vice-Presidents is $114,825 to $183,600. Total compensation paid to SMT was $3,159,288.

From left to right:
Greg Honey, Paul MacDonald, Don Stevens, Les Rankin, Kellie Garrett, Greg Stewart, John Ryan, James Taylor, Moyez Somani, Janet Wightman, Rick Hoffman, Marshall Stachniak, André Tétreault

SMT Profiles

Working as one leadership team, SMT encourages the development of all FCC employees, challenging them to be innovative, forward thinking and focused.

John J. Ryan

President & Chief Executive Officer

Responsible for the strategic leadership of Farm Credit Canada (FCC), John Ryan joined FCC as President and Chief Executive Officer in 1997. John has been instrumental in creating a high-performance culture at FCC. The corporation's customer loyalty and market share has increased significantly during his tenure.

John is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University. Prior to joining FCC, John was Chief Operating Officer at the Business Development Bank of Canada (BDC).

Deeply committed to community involvement, John is currently Chairman for the Hospitals of Regina Foundation and serves on the Board of Directors for Regina's Adult Learning Centre. He is a member of the Board of Directors for the 2005 Canada Summer Games and the Board of Trustees for the Canadian Athletic Foundation. John has served as past Chairman for several Regina United Way campaigns and led the CEO Challenge for Habitat for Humanity in 1998 and 2001. In 2002, Mr. Ryan was awarded a Commemorative Medal for the Queen's Golden Jubilee, in recognition of his significant contributions to the people of Canada.

Moyez Somani, CMA, MBA

EVP & Chief Financial Officer

Moyez provides leadership to FCC's financial function and has direct responsibility for the Risk Management, Treasury, Controller, and Audit and Process Innovation divisions. He is also actively involved in the local community as a Provincial Council member for CMA Saskatchewan, Board member for the Saskatchewan Science Centre and Financial Executives International (Regina Chapter), Investment Committee member for the AgriFood Equity Fund and Board advisor to Mind's Eye Pictures. Moyez brings over 20 years of senior management experience in the financial service sector to FCC.

Janet Wightman

EVP & Chief Operating Officer

Leading all aspects of FCC's national operations, Janet is responsible for farm financing and agribusiness lending, channel development, alliances, venture capital, marketing, portfolio management and development of new products and services such as AgExpert and related software. Janet has 22 years of experience in administration, human resources, organizational transformation and operations management and is a member of the SaskPower Board of Directors.

Kellie Garrett, ABC, BA

VP, Strategy, Knowledge & Communication

Responsible for corporate strategy, knowledge management, corporate communication and brand, Kellie is an Accredited Business Communicator (ABC) with a BA from Carleton University. Kellie is active on several boards, including the MacKenzie Art Gallery and the International Association of Business Communicators (IABC). A regular speaker at Conference Board of Canada and IABC events, Kellie also counsels parents who receive autism diagnoses.

Rick Hoffman, CMA

VP & Controller

Responsible for portfolio accounting, corporate accounting, financial and management reporting and FCC's Loan Administration Centres, Rick has over 15 years of financial and management experience in the agriculture sector. He is a Certified Management Accountant and a member of Financial Executives International.

Greg Honey, B.Ed.

VP, HR & Administration

Responsible for all aspects of HR and national administration services, Greg possesses more than 20 years of human resources experience. He is a member of the Conference Board Human Resources Executive Committee (West) and has a B.Ed. from the University of Regina.

Paul MacDonald, M.A., B.Sc.

VP, Alliances & Business Services

Leading the development of new services and business channels, Paul is responsible for Alliances, the FCC Customer Service Centre, Business Services and e-Business. Formerly VP, Ipsos-Reid, Paul has an MA (Economics) from Queen's University and a B.Sc. from the University of P.E.I.

Les Rankin, Dip. Ag.*

VP, Marketing & Portfolio Management

Responsible for marketing, customer information and market research, portfolio management, and product development, Les has over 30 years of experience in several areas of agribusiness. He holds a Diploma in Agriculture from the University of Manitoba.

Marshall Stachniak, P.Ag.

VP, Audit & Process Innovation

Responsible for internal audit, measurement and control, reengineering of business processes and innovation initiatives, Marshall has served FCC for 30 years, largely in the farm finance and alliances area. He has a B.Sc. (Agriculture) from the University of Alberta and is a professional agrologist.

Don Stevens, CFA, MBA

VP, Information Technology

Responsible for FCC's information technology division, Don has a background in engineering, finance and treasury. Previously, Don served as FCC's Treasurer and Controller. A Chartered Financial Analyst, he holds an MBA from York University and a B. Eng. from Carleton University.

Greg Stewart, P. Ag.

SVP, National Lending Operations

Responsible for national sales, Greg has extensive experience in operations, farm financing, agribusiness and risk management. A professional agrologist, Greg holds a B.Sc. from the University of Manitoba.

James Taylor, MBA

VP, FCC Ventures

Responsible for establishing and leading FCC's new Venture Capital division, Jim has proven experience in developing, pricing and managing debt and equity investments at the Bank of Montreal Capital Corp. and most recently as VP, Intergold Ltd. He holds an MBA from the University of Toronto.

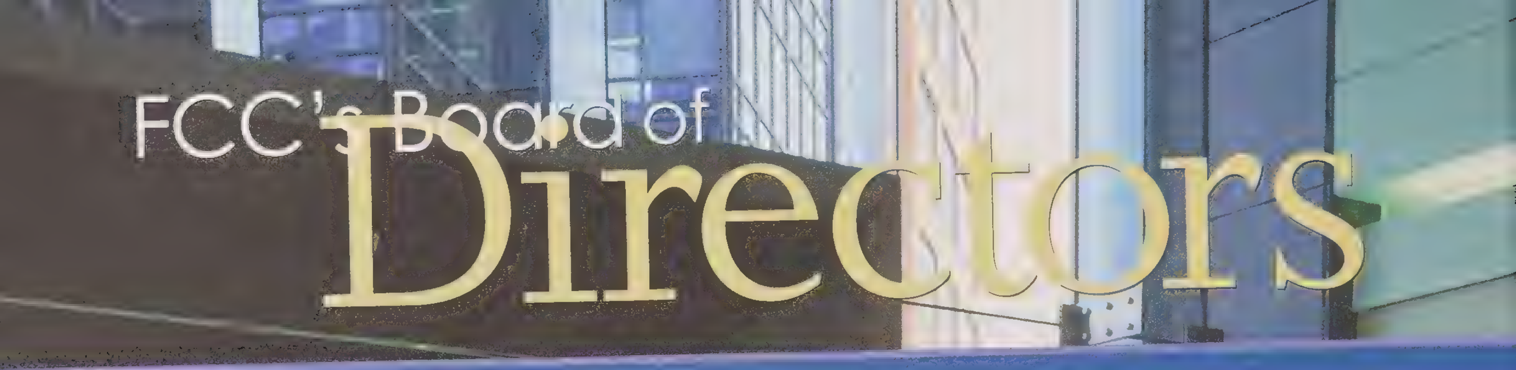
André Tétreault, CGA

VP, Risk Management

Responsible for FCC credit risk and lending policies, André has 26 years of accounting, audit and operations management experience with several federal Crown corporations, including CMHC, and is a Certified General Accountant.

** Les Rankin resigned from FCC on April 23, 2003*

FCC's Board of Directors



Diverse. Dedicated. Determined. FCC's Board of Directors is a highly motivated group of individuals bonded together by their commitment to the success of Canadian agriculture and agribusiness.

The Board works closely with FCC's Senior Management Team (SMT), creating a proactive, positive partnership.

Board Profiles

Rosemary Davis **Chair since June 20, 2000, Director since December 19, 1995**

With over 25 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario. She is a Director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. Ms. Davis is active on many local and provincial agricultural committees and associations. She is a Director on the Board of Loyalist College and is a member of the Fertilizer Institute of Ontario, Fertilizer Use Committee; the Ontario Federation of Agriculture; and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings Counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership to the Ontario Institute of Agrologists. She resides in Trenton, Ontario.

Robert Colpitts **Director since November, 2001**

Residing in Fredericton, New Brunswick, Robert M. Colpitts has more than 30 years of experience in the agriculture industry. Formerly the Director, Animal Industry Branch, New Brunswick Department of Agriculture, he received the James Robb Award for Agrologist of the Year in 1997 and was inducted into the Canadian Hereford Honor Roll for outstanding service to the beef cattle industry in 1986. He holds a B.Sc. Agr. from McGill University (MacDonald College). Mr. Colpitts has made an important contribution to agriculture in New Brunswick through his leadership in several key agricultural organizations. Most notably, he served as Secretary-Treasurer, N.B. Fairs and Exhibition Association; Director, Maritime Beef Testing Society; member, New Brunswick Institute of Agrology; Director, Atlantic Winter Fair and Secretary-Treasurer of both the N.B. Hereford Association and the N.B. Livestock Breeders Co-operative Ltd.

Warren Ellis **Director since April 4, 1995, Chair, Human Resources Committee**

Warren Ellis Produce, in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is President and Chief Executive Officer of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes worldwide. In 1994, he was the Atlantic Region honoree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a Board member of the Western School Board and the P.E.I. Lending Authority and as chairman of the O'Leary Community Sports Centre and the Potato Blossom Festival.

Donna Graham **Director since September 26, 2000**

Ms. Graham is a managing partner of Graham Farms Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta. In the past, she has acted as an advisor on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a National 4-H Award for her dedication to the 4-H movement. Ms. Graham was also Chair of Protocol for the Southern Alberta Summer Games.

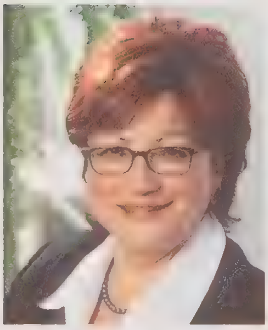
Eleanor M. Hart

Director since May 2, 1995, Board representative on FCC's joint Pension Committee

A farm partner and owner of Lokoja Farms in Woodstock, Ontario, Ms. Hart's previous experienc in the industry includes serving as a Director of the Oxford County Federation of Agriculture and as a member of the Agricultural Research Institute of Ontario. Ms. Hart is also a Past-President of the Ontario Home Economics Association and a member of the Canadian Home Economics Association (CHEA).

Maurice Kraut **Director since June 28, 1999**

A co-owner and operator of a cattle and grain farm enterprise, Mr. Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut was also a Research Director for the Canada Grains Council and an Assistant Deputy Minister of Agriculture in Manitoba.



Marie-Andrée Mallette

Director since June 16, 1995, Chair, Audit Committee

Ms. Mallette operates a large-scale commercial crops and coloured beans operation in Quebec. A lawyer for 16 years, Ms. Mallette has served as the Regional Director of the Quebec Business Women's Association and founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers, and has provided advisory services to exporting companies and agricultural operations seeking equity financing. Ms. Mallette is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association. She contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Museum of Civilization in Quebec City.

Russel Marcoux **Director since December 10, 2002**

Mr. Marcoux is the newest member of Farm Credit Canada's Board of Directors. He is Chief Executive Officer of the Yanke Group of Companies, a firm that specializes in transportation, employing over 700 staff and operating a fleet of more than 400 trucks. Mr. Marcoux also owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, the Saskatchewan Agrivision Corporation and the Children's Health Foundation.

Joan Meyer

Director from January 11, 1995 to September 1996, reappointed September 26, 2000
Chair, Corporate Governance Committee

Ms. Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a Director on a variety of boards on the national, provincial and local level including Canadian Lutheran World Relief, Canadian Foodgrains Bank, The Multicultural Council of Saskatchewan, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

John J. Ryan **Director since September 1, 1997**

With more than 30 years of financial leadership experience, John Ryan joined FCC as President and Chief Executive Officer in September 1997.

He currently serves as Chair for the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. Mr. Ryan serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation.

A strong proponent of community involvement, Mr. Ryan has worked extensively with the United Way of Regina, serving as a Co-chair in 1999, Chairman in 2000 and as Chair for the 2001 Leadership Campaign. In 1998 and 2001 he led the CEO Challenge for Habitat for Humanity. In 2002, Mr. Ryan received a Commemorative Medal for the Queen's Golden Jubilee, awarded in recognition of his significant contributions to the people of Canada.

Marilyn Marie Scott **Director October 24, 1996 to December 10, 2002**

A partner in Scott & Weber Law Firm of Humboldt, Saskatchewan, Ms. Scott specializes in agriculture law, wills and estates. She is a member and past director of Women Entrepreneurs of Saskatchewan and past Chairperson of their Humboldt and District Chapter. In addition, Ms. Scott is a member of the Humboldt District Chamber of Commerce, the Canadian Bar Association and the Saskatchewan Trial Lawyers Association.

Germain Simard **Director since June 6, 1995**

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was President of the Union des Producteurs Agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. For eight years, Mr. Simard served as Executive Vice-President of the Fédération des Agricotours du Québec and most recently as regional president. He is currently a member of the agri-food co-operative Nutrinor and of the caisses populaires Desjardins.

Corporate Governance

Board Stewardship

The Board of Directors is responsible for overseeing FCC's management and business in the best interests of the corporation and the long-term interests of the Government of Canada. The Board's responsibilities are set down in the *Farm Credit Canada Act* and the *Financial Administration Act.*

As part of its overall stewardship, the Board oversees and evaluates FCC's management and performance in order to ensure FCC fulfills its mandate effectively without undue exposure to risk.

With the exception of the CEO, the Board is comprised of members who are independent of management. The roles and responsibilities of the Chair, its members, the CEO and Board committees have all been set out in profiles and Charters approved by the Board. The Board enjoys and encourages open and candid communication with management. Both Executive Vice-Presidents attend every Board meeting. In addition, two other members of FCC's senior management team are invited on a rotating basis. However, the Board also ensures its independence by meeting in caucus at every Board meeting with and without management present.

The Board adheres to the highest standards of ethical conduct. All Board members are subject to the Board's policy governing loans where a director has a material interest as well as conflict of interest rules provided in the *Financial Administration Act* and the *Conflict of Interest Code for Public Office Holders.*

Strategic direction, mandate and public policy

As part of the strategic planning process, the Board determines the broad strategic direction of the corporation and regularly examines FCC's strategic business objectives and public policy role. The Board also approves FCC's Corporate Plan – including the Financial Plan – as well as the Annual Report. Finally, the Board approves the annual goals and objectives of the CEO, which serve as the objectives for the corporation as a whole and holds management accountable for the achievement of those goals.

The Board of Directors is committed to providing input to FCC's strategic direction, and overseeing its execution. During the last fiscal year, the Board devoted an entire meeting to a discussion with senior management regarding FCC's strategic direction. In addition, the Board includes a discussion of general or specific strategic initiatives as a regular part of each meeting. The Board is committed to ensuring FCC's strategies provide specific and measurable targets against which performance can be determined.

This past year, the Board worked with management on a number of significant strategic initiatives. These included:

- In December 2001, as part of the Budget speech, FCC was granted tax-exempt status. Although not yet law, the Board has worked closely with the Office of the Auditor General of Canada with respect to the reporting of this change in FCC's financial statements;
- In May 2002, the Board approved FCC's venture capital strategy. This initiative will play an important role in helping to fill a gap in the venture capital industry in Canada and will be key to the development of local value-added agricultural industries in rural communities, not only through FCC's direct equity investments in local agriculture enterprises but also through its ability to leverage this investment to attract other equity providers;

- In the fall of 2002, the Board approved the corporation's Business Services strategy. The corporation's goal is to enhance the management skills of individuals involved in agricultural enterprises. As part of that overall strategy, the Board also specifically approved the acquisition by FCC of Settler Computer Technologies Inc., producer of AgExpert, a leading agricultural management software.
- Throughout the year, the Board reviewed and approved a number of other strategies of the corporation, including portfolio vision, channel strategy for the delivery of FCC products and services, and customer loyalty.

FCC and its Board of Directors recognize the importance of federal Crown corporations fulfilling a public policy role. In the current fiscal year, the Board has engaged management in a process to better define, articulate and establish targets against which FCC can measure its public policy role. FCC has and will continue to demonstrate its commitment to farmers, agribusiness operators and rural Canada. It is this commitment that distinguishes FCC from the private sector.

Board composition

The Board of Directors is composed of 12 members, including the Chair, President and Chief Executive Officer, and 10 Directors. With the exception of the CEO, all Directors, including the Chair, are independent of management.

The Governor-in-Council appoints the Chair as well as the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors are appointed for terms of up to three years and are eligible for reappointment. FCC's Board members include successful primary producers and agribusiness operators from rural and small urban centres.

Approved Chair and Director profiles set out the desired qualifications, experience, duties and responsibilities of these positions. These profiles assist in succession planning for Board members and serve as a frame of reference when the government selects new candidates. The Board also periodically assesses its own composition to ensure the appropriate mix of expertise and background to meet the strategic needs of the corporation.

Ongoing board training and evaluation

Upon becoming a member of FCC's Board of Directors, each member receives a detailed orientation briefing and meets with the senior executives of the corporation in order to become fully acquainted with its business and affairs. Direct access to members of FCC senior management also provides a source for ongoing education and information.

In order to stay current on important issues, trends and subjects, the Board also regularly engages in training sessions, either individually or as a whole, on topics relevant to their governance responsibilities. This year, the Board participated in training regarding financial statements and treasury, specifically derivatives. These training sessions are either prepared and presented internally, by members of management or by industry experts retained specifically to provide the training. Board members also attend seminars sponsored by organizations such as the Conference Board of Canada.

The Board's committee structure allows for more detailed study of issues affecting particular areas of the corporation. Membership on these committees is rotated on a regular basis in order to ensure a greater depth of knowledge on the part of all Board members over time. In addition, the Board encourages all members to attend meetings of committees they are not members of to promote better understanding of all of the issues and challenges facing the corporation.

Finally, the Board has and continues to engage in a process of self-evaluation. An external advisor has been retained to facilitate the Board's work in this regard.

Appointments

Russel Marcoux, from Saskatoon, Saskatchewan, was appointed as a Director in December 2002, replacing Marilyn Marie Scott, whose term expired on December 10, 2002. Currently, one vacancy on the Board exists as a result of the sudden passing of Rashpal Dhillon in early January 2003.

Board Committees

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis, Donna Graham, Maurice Kraut, Germain Simard

The Audit Committee is composed entirely of Directors who are independent of management. It oversees FCC's financial performance and ensures that management has effective financial and operational reporting systems, internal control systems and processes for preparing reliable and consistent financial statements. The Audit Committee also ensures management has identified key business and financial risks and has put in place reasonable policies, control systems and practices to manage those risks. Finally, it ensures an effective and efficient audit function, including reviewing the findings of the internal auditor and reviewing and approving of the annual audit by the Auditor General of Canada. Recommendations of the Audit Committee are brought to the attention of the Board as required. This Committee may, at its discretion, meet independently with representatives of the Office of the Auditor General and FCC's internal auditors.

During the 2002-03 fiscal year, the Audit Committee met five times and:

- approved the 2001-02 Financial Statements and Annual Report, and quarterly financial results for fiscal year 2002-03;
- approved Board and CEO expense reports for fiscal 2002-03; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2001-02 as well as the plan for the 2002-03 annual audit.

In addition, the Audit Committee:

- reviewed and approved updates to a number of Treasury policies governing the corporation;
- worked with the Office of the Auditor General (OAG) during its third Special Examination of FCC. In November 2002, the Audit Committee reviewed the final report of the OAG, which found no significant deficiencies, and provided its report to the Board with the presentation of the final report of the Office of the Auditor General; and
- worked closely with the Office of the Auditor General with respect to the reporting of the change of FCC's income tax status.

Human Resources Committee

Chair: Warren Ellis
Members: Rosemary Davis, John J. Ryan, Robert Colpitts, Donna Graham

The Human Resources Committee's primary responsibility is to review all major FCC human resources policy matters and to make recommendations to the Board of Directors.

The Committee reviews and makes recommendations on human resource development plans and succession plan frameworks for all management positions at the corporation and evaluates the performance of the Chief Executive Officer. It oversees the employment equity and official language policies of the corporation and the design, objectives and competitiveness of FCC's compensation plans. The Committee receives the reports of the Board representatives on the Pension Committee and makes recommendations, as required to the Board.

During this fiscal year, the Human Resources Committee met seven times and:

- established the CEO's objectives for 2002-03 and evaluated performance for the 2001-02 fiscal year;
- examined the corporation's compensation policies and reviewed the corporation's competency review process applicable to all employees;
- reviewed the redesign and implementation of the corporation's Spectrum employee benefits plan;
- reviewed the 2002 Hewitt employee engagement survey;
- monitored the final stages of the implementation of FCC's Solstice pension program, including monitoring the performance of the investment fund managers;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- completed a review of the corporation's corporate incentive bonus policy, approved a non-cash sales incentive program for lending staff and a long-term incentive program for venture capital staff.

Corporate Governance Committee

Chair: Joan Meyer
Members: Rosemary Davis, John J. Ryan, Robert Colpitts, Marie-Andrée Mallette, Eleanor Hart

The Corporate Governance Committee reviews and provides recommendations to the Board on policies, initiatives or enhancements to the corporation's systems that promote good governance practices of the Board and its Committees. In addition, the Corporate Governance Committee is responsible for overseeing the Board's policies with respect to ethics, conflict of interest and code of conduct for Directors.

During this fiscal year, the Corporate Governance Committee met four times and:

- completed the updating of the Corporate Governance Committee Charter and coordinated the updating of all of the other Committee Charters;
- completed a comprehensive update of the corporation's bylaws;
- recommended to the Board a rotation of members of all the Board's Committees;
- oversaw the orientation and training of the corporation's new Board members; and
- with the assistance of an external advisor, commenced a further round of Board evaluations.

Russel Marcoux has not yet been formally appointed as a member of any of the Board's committees. Mr. Marcoux is attending all committee meetings in order to familiarize himself with the corporation and the workings of the Board and its committees. He then will be appointed to one or more committees.

Board Remuneration

For the performance of their duties, Directors are paid an annual retainer and per diem amounts set by the Governor-in-Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food Canada.

The Privy Council establishes remuneration levels for Governor-in-Council appointees to Crown boards and agencies.

The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and $375 per day for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Per diems are paid for time spent performing Board business in accordance with corporate policies. In the case of more than one meeting being held on one day, only one per diem is paid to each attendee.
- Directors are reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties. These expenses vary from Director to Director according to committee responsibilities and distance traveled to participate in Board meetings.

Pension Committee

This past year saw FCC's pension plan become fully operational following FCC's withdrawal from the *Public Service Superannuation Act* (PSSA) pension plan. Two Board members sit on the FCC Pension Committee, which oversees the administration and guides and develops the investment policies of the plan. In addition to Board representation, the FCC Pension Committee also includes senior management and elected employee representation.

2002-2003 Board remuneration, expenses and attendance

Director	Board retainer (A)[1]	Per diems (B)[1]	Total remunerations (A&B)	Board meeting attendance[2] (%)	Committee meeting attendance[3] (%)	Board travel and related expenses
Robert M. Colpitts	5,400	10,500	15,900	100	100	20,744
Rosemary Davis	10,800	9,240	20,040	75	63	15,410
Rashpal Dhillon[4]	4,500	4,125	8,625	67	60	6,766
Warren Ellis[5]	5,650	10,875	16,525	100	100	23,018
Donna Graham	5,400	12,000	17,400	100	100	17,328
Eleanor Hart	6,150	12,000	18,150	100	100	17,552
Maurice Kraut[6]	6,150	13,500	19,650	100	100	15,480
Marie-André Mallette	6,400	13,125	19,525	100	100	21,476
Russel Marcoux[7]	1,800	2,250	4,050	100	100	1,637
Joan Meyer	5,650	9,563	15,213	100	100	8,892
Marilyn Marie Scott[8]	4,050	5,250	9,300	100	100	4,185
Germain Simard	5,400	10,875	16,275	100	100	26,187
Total	**$67,350**	**$113,303**	**$180,653**	**8 meetings**		**$178,675**

1) Column A (Board retainer) and column B (Per diems) 2) There were six Board meetings and two Board teleconferences 3) 16 committee meetings were held; five Audit, seven Human Resources and four Corporate Governance 4) Rashpal Dhillon passed away in January 2003 5) Warren Ellis replaced Eleanor Hart as Chair of the Human Resources Committee on January 28, 2003 6) Joan Meyer replaced Maurice Kraut as Chair of the Corporate Governance Committee on January 28, 2003 7) Russel Marcoux's term began on December 10, 2002 8) Marilyn Scott's term expired on December 10, 2002

Glossary of terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as agribusiness.

Alliances
Relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one per cent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income, calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, for example, dairy, cash crops, beef, etc.

Farm finance
Farming that produces raw commodities; e.g.: crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Integrated risk management (IRM)
The coordination of risk mitigation efforts to enhance the risk culture of the organization.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include: prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Return on assets (ROA)
Net income expressed as a percentage of average total assets.

Return on equity (ROE)
Net income expressed as a percentage of average equity.

Risk scoring and pricing system (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic credit risk model (SCRM)
A tool to measure overall credit risk present in the portfolio which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value added
Businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

FCC office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler, St. Paul, Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Morris, Neepawa, Portage la Prairie, Shoal Lake, Steinbach, Stonewall, Swan River, Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, Saint-Hyacinthe, Saint-Jean-sur-Richelieu, Saint-Jérôme, Sainte-Foy, Sherbrooke, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland and Labrador
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

Government and Industry Relations
Room 859, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
Telephone: (613) 993-9897
Fax: (613) 993-9919

Corporate Office
1800 Hamilton Street P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: (306) 780-8100
Fax: (306) 780-5456
www.fcc-fac.ca

Customer toll-free number:
1-888-332-3301

Cette publication est aussi offerte en français.

Photography by Greg Huszar

A closing toast from our customers

"The wine industry in Canada wouldn't be where it is today without the help of FCC. Local people knew what could be done but the industry needed a financial backer that saw the possibilities. I know FCC's products and people – and I know that here in Ontario the winery tourism and the Ice Wine Festival would not exist without FCC's vote of confidence."

Lloyd Schmidt - International Viticulture Services

"The wine industry is capital intensive. There's a long period where nothing happens as you wait for crops to mature and try to develop a recognized brand. The French and Italians spill more wine than we make! But, even in our 20's, we were convinced that we could grow the grapes and produce a high quality product. FCC came to the plate for us!"

Paul Speck - Henry of Pelham

"FCC walks the talk. I've never met an FCC representative that wasn't willing to go the extra mile . . . to meet us in the field, on holidays or on weekends. I can honestly say that everyone that I've met from FCC is a great credit to their organization – and a great credit to this country."

John Howard - President/Owner, Vineland Estates

1-888-332-3301

www.fcc-fac.ca

Canada

2003-04 Annual Report

Experience Agriculture

fcc Farm Credit Canada

Table

As Canada's leading provider of agricultural financing and business solutions, FCC works closely with thousands of farm families and agribusiness operators.

Together, we have the privilege of experiencing Canadian agriculture – the pride, the opportunities, the challenges and the innovations that make this industry and its people such a vibrant part of our national landscape.

We are committed to serve our customers and grow agriculture from coast to coast, and we are pleased to share our progress in our 2003-04 Annual Report.

Experience agriculture. Experience FCC.

Corporate profile

Farm Credit Canada (FCC) helps farmers and agribusiness grow and diversify. Operating out of 100 offices located primarily in rural areas, the corporation's dedicated employees are passionate about the business of agriculture. We continue to expand to meet the changing needs of the industry, offering our customers a variety of customized loan products and business services. Supporting primary producers is FCC's main focus through all three lines of our business – farm finance, agribusiness and alliance partnerships.

A federal Crown corporation that is financially self-sustaining, FCC lends to all sectors of agriculture across Canada. Funds are raised through domestic and international capital market borrowing programs. Profits are reinvested in agriculture, developing products and services to benefit the industry. FCC's healthy portfolio of $10 billion and 11 consecutive years of portfolio growth are a reflection of our customers' success.

Agriculture. It's all we do.

Vision

Visionary leaders and trusted partners – putting the power of our people's specialized knowledge and innovation to work for farm families and agribusiness across Canada.

Mission

To enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Corporate values

Our corporate values guide our conduct with colleagues and customers:

Focus on the customer

We succeed when our customers succeed. To help them, we listen and work to understand their needs.

Act with integrity

We treat people – colleagues and customers – with respect, balancing business decisions with individual needs.

Working together

We believe in the power of teamwork. We work together with customers to design solutions tailored to their needs. We partner with other organizations to the benefit of customers.

Give back to the community

We believe in giving back to our communities – the communities where our customers and employees live and work.

Achieving excellence

We are committed to one thing – the success of the agricultural industry. And what we do, we do very well. We always set our sights high, strive to learn more and work to build a business that benefits our customers and helps our employees to achieve their potential.

Cultural practices

In addition to the corporate values, our cultural practices refer to the expected behaviours of FCC staff at all times with colleagues, customers, partners, suppliers and stakeholders:

We hold ourselves and each other accountable for:

- our impact on business results and our impact on people;
- delivering on commitments, agreements and promises;
- building and sustaining committed partnerships, and
- creating a safe environment where people can speak up without fear.

We measure our success by how others perceive and respond to our leadership, not by our personal point of view.

We talk straight in a responsible manner. We are committed to the success of others – we do not engage in "conspiracies against" people.

We "listen for" contributions and commitment. We do not listen against people or ideas.

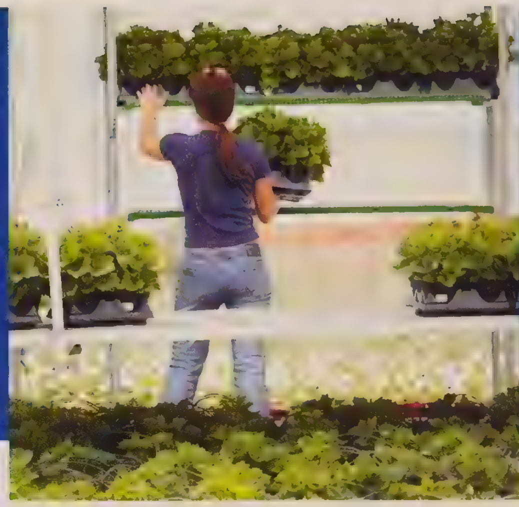
We are highly coachable. We actively seek and listen to coaching.

We clean up and recover quickly.

We acknowledge others often and celebrate both small and large successes.

2003-04

Operational and financial highlights



For the year ended March 31

Operational	2004	2003	2002	2001	2000
Loans receivable portfolio					
Number of loans	82,551	78,442	75,888	75,202	73,686
Amount ($ millions)	10,049.4	8,812.6	7,715.8	6,907.6	6,303.8
Net portfolio growth (%)	14.0	14.2	11.7	9.6	7.9
Loans receivable in good standing (%)	96.0	96.4	96.5	95.5	94.9
New lending					
Number of loans approved	25,025	24,396	17,842	13,289	14,201
Amount of loans approved ($ millions)	3,429.4	3,138.3	2,446.1	1,752.5	1,611.6
Average size of loans approved ($)	137,040	128,640	137,097	131,875	113,500
Real property held at year end					
Number of properties	22	19	115	372	924
Number of acres	5,559	5,109	28,855	120,924	360,284
Value ($ millions)	3.7	3.5	10.1	25.1	64.9

Financial	2004	2003	2002	2001	2000
Balance sheet ($ millions)					
Total assets	10,214.3	8,991.2	7,884.0	7,179.3	6,570.7
Total liabilities	9,266.4	8,148.4	7,138.0	6,346.7	5,943.5
Equity	947.9	842.8	746.0	832.6	627.2
Income statement ($ millions)					
Net interest income	309.7	269.3	201.2	164.5	154.4
Provision for credit losses	84.0	67.2	45.5	40.2	52.7
Other fees and income	11.4	14.0	14.7	31.4	29.4
Administration expenses	131.9	119.3	101.6	94.5	90.8
Income before income taxes	105.1	96.8	68.8	61.2	40.3

As a sovereign borrower, FCC maintains an AAA credit rating.

Message from *the* President *and* CEO

Agriculture has a proud history in Canada – entrepreneurs of every generation have contributed to our nation's evolution through initiative and hard work.

The agriculture experience continues to evolve as new opportunities and challenges influence this complex industry. The industry is changing as producers manage the growing trend toward consolidation. Environmental issues are influencing the entire value chain, from industry inputs to consumer purchasing decisions. Canada's producers and agribusiness operators are building a national brand in an increasingly global marketplace.

As the industry evolves, so does the need for financing. The scale of today's operations demands larger capital investments and, in some sectors, the revenue from that investment can be a long time coming. Primary producers and agribusiness operators need flexible financing tailored to their sectors and individual needs, from start-up and expansion to retirement.

Put it all together and you have a snapshot of Canadian agriculture – growing, challenging, innovative.

At FCC, we share that experience and energy with our customers every day. Agriculture is all we do and we focus on providing high-quality lending and business services to Canada's agriculture community.

We understand the opportunities and challenges facing the industry. We know that agriculture is cyclical and that the ebb and flow of market forces, weather and other circumstances influence the business of agriculture and demand proactive management. We recognize that one size doesn't fit all and that detailed knowledge and planning are critical to success. And, above all, we share the passion of our customers for agriculture.

Those roots run deep at FCC – many of our employees come from farming backgrounds and all have specialized knowledge and experience that they put to work each day to deliver the products and services that our customers need. And the knowledge flows both ways, as our customers share their ideas and insights with FCC to help us meet their needs more effectively. This creative collaboration and mutual respect has contributed to the success of thousands of producers and agribusiness operators over the past 45 years.

Thanks to FCC customers and employees, we achieved our 11th consecutive year of growth and our loan portfolio grew to a record $10 billion in 2003-04. We are committed to the highest standards of financial management to ensure the efficient use of FCC's resources and we continue to be self-sustaining, reinvesting our profits to finance the growth in our portfolio and develop financial and business solutions to benefit the industry.

Like our customers, we have diversified to meet the changing needs of Canadian agriculture. Our core business is lending and we offer a variety of tailored loan products. We have also developed a suite of business services, including management skills training, software solutions and venture capital. We are focused on adding value to our customers and the industry through every aspect of our business.

We support agriculture through good times and bad, and this has once again been a year of challenge and opportunity for our customers. The beef sector has been particularly hard hit, due to the impact of Bovine Spongiform Encephalopathy (BSE) or mad cow disease. Our commitment to the beef industry is unwavering and we will continue to provide new financing to the sector and work with our customers to see them through. We also work closely with customers whose businesses have been affected by other challenges, including avian flu.

"Our employees are hardworking, caring people and I thank them for the remarkable energy, passion and commitment they bring to our customers and our organization."

That commitment to our customers and to every sector of Canadian agriculture is at the heart of everything we do. We are committed to building the kind of relationships that create satisfied customers who become customers for life. That means talking about what's working, what's getting in the way, and how we can take customer experience to new levels through innovative thinking. Our 1,000 employees across Canada rise to the challenge every day and we recognize that our consistently strong performance in the marketplace is due to their collective effort. Our employees are hardworking, caring people and I thank them for the remarkable energy, passion and commitment they bring to our customers and our organization.

Our mission, vision and values keep us focused, ensuring that everyone is headed in the same direction toward the same goal. We continue to promote leadership, knowledge management and innovation as guiding principles that help shape our efforts to better serve our customers. FCC was recognized as one of Canada's top 50 employers in 2003 through the annual study administered by Hewitt Associates in conjunction with the Globe and Mail, and we will keep working to build a quality workplace.

We have also taken exciting steps forward to improve the way we work with one another — like everything else we do as a high-performing organization, we know there is always room for improvement.

Last year, we introduced a set of cultural practices to the organization that promote effective communication and enhance our individual and shared accountabilities. These practices define how all of us work together as colleagues and with our customers, partners, suppliers and stakeholders.

Our cultural practices are about supporting our values, treating people with respect and dignity, and creating a winning team where we are deeply committed to one another's success. Employees are applying the cultural practices to their daily work and I look forward to the breakthroughs and results we will achieve with a common language and a shared set of skills to enhance the way we work together.

Something special is happening at FCC and our continued growth is telling us that people want to be a part of the customer experience we offer. As Canada's leader in agricultural financing, it is our privilege to experience and support agriculture in partnership with primary producers and agribusiness. Agriculture is always challenging, always changing – and always invigorating. Whether we are in a farmer's field discussing crop management strategies, sitting down with an agribusiness operator to talk expansion plans, or sharing knowledge in the workplace, this industry challenges us to learn more and to do more.

Agriculture is an industry built on partnerships and we are proud that FCC continues to contribute to its growth and success. Together with my team of employees from coast to coast, we thank our customers for their trust and their business – we look forward to continued partnership and new opportunities.

John J. Ryan

Message *from the* Chair

Responsible corporate governance and a passion to support Canadian agriculture are essential to the success of FCC. I am proud that the Board of Directors brings an abundance of both qualities to the corporation.

The Board of Directors oversees and evaluates FCC's management and performance to ensure that the organization fulfils its mandate in the best interests of the company and, as a Crown corporation, in the best interests of the Government of Canada.

The Board provides skilled leadership, diverse experience and a commitment to the highest standards of ethical conduct. We guide FCC's strategic direction and oversee strategy execution, holding management accountable for performance against specific targets. Building on our expertise in agriculture, finance, management and public policy, we encourage continuous learning among our members to stay informed and involved in the wide range of issues relevant to FCC.

The Board is renewed on an ongoing basis, as colleagues complete their terms of service and new members are appointed. We welcomed Jack Christie, Don Haliburton and Deborah Whale in November 2003, and extend our sincere thanks to Robert Colpitts, a director since November 2001, and Eleanor M. Hart, a director since May 1995, for their many and varied contributions.

FCC is a dynamic, growing organization that is constantly evolving to meet the changing needs of the agriculture industry, and the Board sees exciting progress and potential ahead.

Agriculture is a demanding industry that becomes more complex with each passing day. Demand is growing for holistic solutions rather than just products and services, as producers expand, diversify and explore new markets. FCC employees contribute their best at every level of the organization, building on a longstanding commitment to Canadian agriculture that extends from coast to coast, generation to generation. They are also committed to their communities and the Board shares FCC's passion for corporate social responsibility and making a difference, from delivering food hampers in rural locations to working with St. John Ambulance to promote farm safety.

On behalf of the Board, I offer sincere thanks to the 1,000-plus employees of FCC. Your knowledge, experience and dedication to the success of our customers, the agriculture industry and FCC are truly outstanding.

Working together in the spirit of collaborative community, we are positioned to support FCC's mission – to enhance rural Canada by providing business and financial solutions to farm families and agribusiness.

Respectfully submitted on behalf of the Board of Directors,

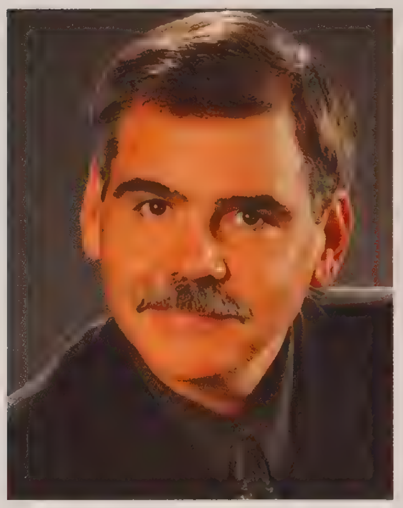
Rosemary Davis

Rosemary Davis

Message

Minister

of Agriculture & Agri-Food Canada



It is through experience that we gain knowledge. Whenever I meet with Canadian farmers and farm families, I am impressed with their commitment and perseverance. I am fortunate to be able to draw on their generations of experience.

Experience also tells us that through partnerships – governments and industry working together – we can achieve great success.

To achieve continued growth, farmers need the right advice and tools to make sound business decisions. They also need a reputation for quality, delivery, innovation and market responsiveness.

This reputation is what our national agricultural policy sets out to achieve for our farm sector. The policy is based on industry experience, but at the same time is future-oriented. It takes into account a farm's potential, considers all activities of the farm business, and actively encourages innovation, diversification and value-added production. This year will see many programs rolling out under the new policy.

It's a new era for Canadian agriculture, and producers will need access to business planning and financial solutions that will help them produce safe, high-quality food in an environmentally sustainable way. Farm Credit Canada (FCC) is a valuable partner in this process, providing sound financial expertise and leadership to farm families and agribusinesses through a variety of customized loan products and business services.

From lending expertise to working actively in partnership with the customers it serves, FCC will continue to support rural Canada and the ongoing evolution of Canadian agriculture with innovative products and services that benefit the individual farmer and the industry as a whole.

The Honourable Andy Mitchell
Minister of Agriculture and Agri-Food Canada


Experience agriculture

Experience:

"Farmers are wonderful people who not only strive to succeed in business, but take immense pride in the contribution they make to our country. At FCC, we draw much pride in contributing to their success, in listening to them share their hopes and plans and in helping them seize opportunities and develop solutions."

– Diane Gagnon, FCC Marketing Analyst, Ste-Foy, Quebec

Our commitment to agriculture

At Farm Credit Canada (FCC), our sole focus is agriculture and we have been proudly serving Canada's agriculture community for 45 years.

Agriculture is one of our country's defining industries – major in its impact on people and the economy. Agriculture will continue to play a lead role in shaping the Canada of the 21st century. Highly entrepreneurial and increasingly high-tech, this industry is positioned for continued growth and innovation.

Together with our customers, we are experiencing an evolution in the business of agriculture. Primary producers are increasing efficiencies and building larger, more complex operations. The hallmarks of Canadian agriculture – crops, dairy, hogs, beef, poultry – have been joined by emerging operations such as vineyards, specialty livestock and aquaculture. New and established agribusinesses are adding value on both the input and output sides of primary production, from farm equipment sales to primary processing.

In the early days, FCC offered one loan product. Today, we offer our customers a variety of customized financial and business solutions, from management skills training, insurance products and software tools to venture capital.

FCC's loan portfolio of $10 billion and 11 consecutive years of portfolio growth are a reflection of our customers' success. Although we have expanded to meet the changing needs of the industry, supporting primary producers continues to be our main focus through all three lines of our business – farm finance, agribusiness and alliance partnerships.

A federal Crown corporation that is self-funded, FCC lends to all agriculture sectors across Canada. We raise funds through domestic and international capital market borrowing programs, and our financial viability allows us to support customers and agriculture over the long term. Our profits are reinvested in agriculture, financing the growth in our portfolio and developing products and services to benefit the industry.

"FCC knows agriculture and is sensitive to the hardships that occur to our customers. I believe that puts us above all others in the industry."

– Nathalie Knapman, FCC Administrative Assistant, Edmonton, Alberta

Our 1,000-plus employees, located in approximately 100 offices nation-wide, are proud to deliver on FCC's mandate and mission every day – to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. It is our goal to deliver an exceptional customer experience and build solid, long-term relationships with our customers through every business phase, from start-up to retirement.

Our business environment

Understanding the environment in which our customers do business is key to FCC's ability to develop innovative products and services to meet their needs.

We operate in two industries – agriculture and financial services – and we proactively monitor the trends and activities that influence both. We use this market intelligence, along with customer feedback, to meet the needs of our customers and promote the growth of these industries.

The leading story in Canadian agriculture this year was the May 2003 announcement of a case of Bovine Spongiform Encephalopathy (BSE) or mad cow disease. Following the announcement, 34 countries banned Canadian beef imports and the federal government stopped all export shipments of beef. While there has been some progress in reopening Canada's borders to trade, the ongoing uncertainty around live cattle exports is creating significant difficulties for the beef industry.

At FCC, we promote the growth of agriculture and provide support in good times and bad. We are following developments regarding the BSE issue and monitoring the impact on our 6,600 customers in the beef sector across Canada. We activated our Customer Support Strategy shortly after the crisis began – Account Managers contacted customers facing difficulties, giving them the opportunity to explore flexible solutions such as payment rescheduling or interest-only payments.

As part of our response, our Portfolio Management, Risk Management and Operations staff teamed up with members of our beef community of practice – FCC's top beef experts – to stay on top of the issue. Working together, they monitored developments, stayed connected with our lending staff and developed a resource section for the FCC intranet, providing staff from coast to coast with the latest BSE information.

FCC remains fully committed to the long-term viability of Canada's beef sector. We continue to provide new financing to the beef sector and work with affected customers to see them through – as we do with every customer whose sector is experiencing difficulties, be it BSE, avian flu, drought or other challenges.

From a global perspective, trade issues continue to affect Canadian producers. The current round of World Trade Organization (WTO) negotiations, scheduled to be complete by 2005, could have major implications. The U.S. Farm Bill, which will be in effect until 2008, is expected to result in greater production, higher U.S. exports and lower world prices. Traceability through proposed country-of-origin labelling may become the new norm, given increasing concerns over bio-security. From the hog moratorium in Quebec to challenges from the international community regarding Canada's quota system, the business of agriculture always reflects a range of challenges and opportunities.

I think the future for a lot of producers is marketing a lot more product themselves. We've seen growth in that for the past 10 years.

– FCC customer Wilf Kuipers, Kuipers Group of Companies, Aylmer, Ontario

FCC also operates in the financial services industry, which includes chartered banks, credit unions, caisse populaires and provincial lending agencies. We know that global competition, product innovation and demographics are driving change in financial services. Technology is also influencing the marketplace as companies respond to demand for access to information and services 24 hours a day – in person, by phone and via the Internet.

Competition will intensify as the full effect of Bill C-8, reforming Canada's financial services industry, is felt in the marketplace. With a new regulatory framework and anticipated economic recovery in North America, the industry will likely see continued expansion, with an increasing focus on larger and international markets.

FCC's focus on rural Canada through our network of field offices keeps us close to our customers and the business of agriculture. Supporting primary producers has always been our central focus and it will remain so in the future. We provide farm families and agribusiness with flexible products and services to help them effectively manage their way through cyclical fluctuations in commodity supply and demand, price pressures, weather-related issues, disease and other challenges.

At FCC, we believe in the power of a collaborative community and the benefits that can be realized when stakeholders come together to strengthen agriculture. We support the objectives of the federal government's Agricultural Policy Framework (APF). Developed with provincial and territorial governments and the agriculture and agri-food industry, the APF is a landmark initiative that will guide agricultural program development across Canada. The key elements of the APF are business risk management, food safety and food quality, environment, renewal, and science and innovation.

We also partner with a variety of innovative organizations across Canada through our industry relations activities. Teaming up with the Canadian Federation of Agriculture, Canadian Farm Business Management Council, Canadian Young Farmers Forum, Union des Producteurs Agricoles and Keystone Agricultural Producers, among others, enables us to share ideas and work together to promote positive change in the industry.

> "The business of agriculture has always been a challenging way to make a living, and I believe it will continue to be. The industry will continue to evolve and progress as it has always done, but I don't think anyone can predict exactly what the future holds – the key is to accept the changes and take advantage of the opportunities that occur."
>
> *– Gary Gale, FCC Account Manager and farmer, Regina, Saskatchewan*

Building strategic solutions

FCC is committed to providing services and tools to help producers succeed in an ever-changing marketplace.

Strategy and business savvy are key to success in this complex industry, and producers and agribusiness operators are developing strategic solutions as they expand their operations and explore niche markets. They are building partnerships along the agriculture chain – from inputs to outputs – and increasing efficiencies, managing risk and intensifying marketing efforts.

Structural change in agriculture is resulting in fewer, but larger farms, with an increase in the demand for capital as well as average loan size. In this environment, sound business management is a core competency for successful producers.

Our Business Services team has developed a range of business and educational services – including insurance protection, educational workshops and software solutions – to complement our agricultural financing options and meet the needs of farmers and agribusiness operators.

At FCC, we believe that planning for the future and using risk management tools are essential for success. We enhanced our AgriAssurances product line this year to provide customers with more choice of insurance coverage, including loan life, accident and payment protection.

Our Advanced Farm Manager program gives experienced producers an in-depth perspective on the essential components of strategic business planning. Our AgriSuccess workshops continue to evolve to meet the management skills requirements of producers in all stages of agriculture, from start-up to retirement. With close to 120,000 Canadian farmers turning 65 in the next decade and more than $50 billion in assets expected to change hands as farms are transferred to a new generation, FCC is responding to an industry need.

Young people are the future of agriculture and we offer workshops that help equip them with the management skills they will need to succeed. We also offer FCC Business Planning Awards to agriculture students attending universities and agricultural colleges across Canada. We have expanded the program from six to 11 schools, with an increase in prize money from $32,500 to $69,000. The program challenges students to develop real-life business plans in partnership with their professors and experienced farm operators.

Mitchell Thomas of Lower Knoxford, New Brunswick was one of 35 winners of the 2003 FCC Business Planning Awards. Mitchell prepared a plan for the future of the family's potato, grain and hay crop operation. "Working with my dad to see how the company runs was an eye-opening experience," Mitchell says. "It made me a lot more aware of all the factors that go into a successful business. It's a good experience to go through for the future."

To further promote learning opportunities in the industry, FCC is the lead sponsor of Canadian Total Excellence in Agricultural Management, or C-TEAM, a program offered by the George Morris Centre at the University of Guelph.

Learning new skills also applies to technology and primary producers are adopting technologies to advance management practices on their farms. FCC is pleased to support producers' efforts with AgExpert™, Canada's leading farm management software.

This year, we introduced updated versions of AgExpert Analyst, an accounting and financial management package designed specifically for agriculture, and AgExpert Field Manager, a powerful tool to help farmers plan their crops and track performance. Producers can create and compare different scenarios, enter day-to-day field activities, and run reports to analyse the performance of their fields over time.

Producers also have access to fast, high-quality phone support through the AgExpert customer support line. Our employees are not only experts on AgExpert, they understand the business of farming. Experience in agriculture doesn't come quickly or easily, and our employees bring their experience – and a passion to learn more – to every customer relationship.

Like agriculture, innovation is all about the follow-through – a great crop doesn't grow itself and a great idea is just that, until it's put into action.

– Ross Topp, VP, Audit & Process Innovation

"To be honest, we became involved with FCC because the previous owner of this dairy had his financing through FCC. We stay with FCC because they've been good to us. My Account Manager and his Manager have always offered their ideas and advice, and that means a lot to young guys like us. They challenge us to do our best and give us a pat on the back for a job well done. The numbers tell a story, but when someone in the industry says you're doing great, that's the icing on the cake."

– FCC customer Bryan Kornelius, Elkrest Farms, near Osler, Saskatchewan

Experience agriculture

Experience:

"I appreciate the friendship and honesty at FCC. If there are concerns about a deal I'm making, they're up front with me. FCC has specialized knowledge of agriculture that other lenders don't have, and there is flexibility. If I have a payment due but I want to hold my steers a little longer, I can call my Account Manager and he says thanks for letting me know and that's it. It all happens over the phone with no paperwork and no cost. That means a lot."

– FCC customers Brian and Kim Geis, Geis Angus Farm, near Barrhead, Alberta

Our people

The experience and passion that our people bring to agriculture and to serving our customers with excellence are at the core of everything we achieve as an organization. FCC employees offer a level of knowledge, expertise and commitment that is unparalleled in agricultural financing.

We understand this vast industry and its many sectors, and we are deeply committed to its success. We know first-hand the issues that farmers and agribusiness operators face, as many of our front-line employees come from farming backgrounds. Many also have specialized education and training in agriculture, enhanced by years of hands-on experience.

Agriculture is a knowledge-intensive business, and keeping pace with its ongoing evolution demands continuous learning. At FCC, we are committed to growing agricultural knowledge within our organization and the industry.

Knowledge management is about knowing and growing what we know – individually and collectively. By putting knowledge into action, we can serve our customers more effectively and enhance performance and innovation at FCC.

At FCC, we take a holistic view of high performance – we hold ourselves accountable not only for our business results, but how we achieve those results with customers and colleagues.

– Greg Honey, VP, HR & Administration

"It makes a huge difference when you work with people who are totally committed to agriculture."

– Patricia Botter, FCC Account Manager, Guelph, Ontario

We encourage employees to share knowledge through dialogue and information sources like the FCC intranet, a network of information for employees nationwide. We come together at regional conferences to share information and experience, and to strengthen our relationships with colleagues. Employees also teamed up this year to create and deliver Learn the Business, a series of interactive sessions and online learning modules to enhance our knowledge about FCC, our customers and the industry.

Our knowledge management activities include FCC's internal communities of practice network. Groups of lending and risk professionals in a variety of agriculture sectors educate one another and FCC by sharing their knowledge and bringing external expertise to the table to learn more about what's going on in their sector and competitive environment. They provide input into our corporate strategic planning process, conduct in-depth analysis on industry issues, develop production benchmarks and create innovative tools that improve our ability to serve our customers.

Vineland Account Manager Steve Courson, a member of FCC's greenhouse community of practice, created a spreadsheet to help Ontario greenhouse operators save money, balance cash flow needs and gain efficiencies. "If we can improve service to our customers through innovation, we can build more successful relationships." Our Knowledge Management team worked with other communities of practice to replicate Steve's concept for sectors such as pork, beef and crops.

Innovation is intrinsic to life at FCC – whether we're participating in a brainstorming session, developing a new product, finding ways to streamline a process or learning techniques to encourage creativity and problem-solving, we create a high-energy environment that encourages the development of innovative solutions. We have learned that innovation doesn't have to be big to have a positive impact, so we make a point of encouraging and recognizing small innovations that help us work more effectively – it's good people practice and it's good business.

Fostering leadership at all levels and creating a culture where we encourage and bring out the potential of all employees is a top priority at FCC. Our focus on leadership and continued development in this area is a key driver of our success and future growth, both as an organization and as individuals.

Leaders exist at all levels and are not confined to those in management. A true leader empowers those around them by creating vision, sharing knowledge, listening and motivating others to achieve excellence. We are committed to developing each employee's inner leader.

– John Ryan, President & CEO

We are looking beyond the here and now to envision our future success and proactively plan how we are going to get there. Our code of conduct and our cultural practices support FCC's environment of respect and accountability. We created a leadership community of interest in 2003 that brings managers together to share ideas and discuss leadership concepts and practices. This community is opening up to all employees in 2004.

We host annual leadership conferences as an opportunity for focus, reflection and action. This year, we brought together three of our corporate priorities – knowledge management, innovation and leadership – to engage our management team in a dialogue about how we can take the customer experience at FCC to a new level. Our goal is to build the kind of relationships that add solid, longstanding value to our customers' operations, and the customer experience we offer is key to our success in achieving FCC's central strategy.

Another people practice that distinguishes us as an organization is our commitment to creating a true climate of bilingualism for our customers and employees. Canada's two official languages – English and French – receive equal status at FCC and our employees view official languages as an opportunity, not an obligation. Our ability to serve our customers in the language of their choice is good business as well as good public policy.

We also work together to create a climate where employees are encouraged to stretch their linguistic abilities and have some fun doing it. Both languages are spoken regularly in our business and social settings. As well, all of our national meetings feature simultaneous interpretation and we conduct follow-up calls and on-site audits with our designated bilingual offices.

In recognition of FCC's commitment to bilingualism, our President and CEO John Ryan received the 2003 Leon Leadership Award from the federal government's Commissioner of Official Languages. This award pays tribute to his leadership in championing FCC's provision of bilingual service to the public, creating a workplace conducive to both official languages and enhancing the vitality of official language minority communities.

We are also strongly committed to the value of diversity in our workplace. Our employees work together to promote diversity and create a culture that respects and supports the differences in all of us. Among our activities this year, we celebrated International Day for Persons with Disabilities, International Day for the Elimination of Racism, International Women's Day and National Aboriginal Day.

Our commitment to leadership, knowledge management, innovation, diversity and official languages helps make FCC a great place to work. We were honoured this year to be ranked among Canada's 50 best employers in the annual study administered by Hewitt Associates in conjunction with the Globe and Mail.

"I believe that one of the reasons FCC is one of Canada's top 50 employers is because of its commitment to the personal development of staff. When FCC is willing to make an investment in me, it reinforces the belief that I make a difference. Ultimately, it motivates me to strive to be my best every day."

– Tamara Sinclair, FCC Operations Analyst, Regina, Saskatchewan

The study points to some key reasons why FCC stands out as a top employer, including our training and development programs, employee benefits, community investment program and volunteerism, commitment to knowledge management, alignment of the leadership team and internal communication practices.

The International Association of Business Communicators (IABC) has recognized our communication practices as world-class. President and CEO John Ryan received IABC's 2004 Excellence in Communication Leadership (EXCEL) Award. This international award is the highest honour that IABC bestows on individuals who are not members of the organization but consistently demonstrate vision and leadership in their commitment to effective business communication.

We also took some important steps forward this year to address capacity planning, a key issue in people practice and business performance. A business can develop leading-edge strategy, but capacity – people and resources – is required to bring it to life.

A major addition to our 2004-05 integrated planning process is an improved project planning and implementation process, led by our new corporate Project Management Office. Our Priorities Management Council, a subset of the Senior Management Team, prioritizes and activates projects when the strategic priority, timing relative to other projects, budget and resources are aligned.

As a high-performing organization, we have a great capacity to deliver business results. By investing in our people, creating an innovative work environment and enhancing our focus on capacity planning, we are working to ensure that our results can be sustained over the long term.

Making a difference in our communities

We believe passionately in corporate social responsibility at FCC – our ability to have a positive impact on society while achieving business success. From our community investment activities to our approach on environmental issues, we work closely with stakeholders to make a difference in communities across the country.

Agriculture is our only business and we have focused our giving in the areas of farm safety and food. As a member of the Canadian Centre for Philanthropy's Imagine program, we give more than one per cent of our profits to charitable and not-for-profit community organizations through the donation of financial resources and in-kind services.

We will further strengthen and broaden our community investment program in 2004-05 with an additional $600,000. This new funding will be directed to projects of importance to rural communities in addition to FCC's farm safety and food themes.

We work closely with Canada's rural youth on a variety of projects and will celebrate the 10th anniversary of the FCC 4-H Scholarship Awards by putting more education dollars in their hands through a new and improved scholarship program for 2004-05. We will award six regional scholarships of $1,500 to students with the best project plans that address farm safety, community improvement or hunger issues in rural communities. Five winners will also receive a budget of up to $3,000 to make their projects a reality.

Alexa Gray of Claresholm, Alberta won the national 2003 FCC 4-H Scholarship Award for her project, a community garden. In addition to three plots set aside for the local food bank, gardeners will be encouraged to donate part of their harvest. "The garden will allow new and experienced gardeners to go outside, exercise and cultivate their passion for growing food, all the while helping those in need," says Alexa.

We worked with communities in the fight against hunger, donating $30,000 to the Canadian Association of Food Banks in honour of World Food Day. Our employees observed the day by supporting their local food banks. Because hunger isn't just a problem in urban areas, part of FCC's donation was used to cover costs of delivering food to Canada's rural food banks.

We also partnered with community organizations to help feed families during the holiday season, donating an additional $29,000 to support food banks, hamper programs and holiday meals across the country. Funding was shared with a number of local organizations, including food banks in St-Hyacinthe and Barrhead, and adopt-a-family programs in Kamloops and Abbotsford. Our employees rose to the challenge, volunteering time in their communities to serve meals and deliver food hampers.

In the area of farm safety, our third annual First Aid on the Farm program gave more than 1,500 students in rural communities the opportunity to learn farm safety awareness and basic first aid. After receiving training from St. John Ambulance volunteers, students complete a farm safety audit with their parents, receive their First Aid on the Farm certification and become ambassadors at their schools.

"Through this partnership with FCC, we are significantly expanding our reach to rural areas. Together, we are helping students take preventive measures to make their farms safer and equipping them to respond in an emergency."

– Suzanne McGlashan, CEO, St. John Ambulance, FCC's First Aid on the Farm partner

We launched a new project this year to help improve safety on farm-related worksites across the country. FCC is working with the Newfoundland Dairyman's Association and the Canadian Agricultural Safety Association to distribute a series of safety signs to farms and agribusinesses. The signs were developed for a wide audience, including people from a variety of cultures, children and those who cannot read.

By supporting safety and food-related programs across the country, our community investment initiatives enable us to give back to the communities where our employees and customers live and work. Our employees also worked tirelessly to raise more than $224,000 for the United Way in 2003, surpassing our previous record by more than $50,000. This collaborative effort put us in the top spot for workplace campaigns in the United Way of Regina's fundraising drive, an achievement that speaks to the power of teamwork.

In addition to the many hours contributed to FCC projects, our employees are personally involved in a variety of charitable activities, and our employee volunteer program shows our support for that good work. Employees who donate a minimum of 40 hours annually are eligible to receive a $500 grant for that charity. In 2003-04, our contributions totaled $36,000, benefiting 72 charitable organizations across the country.

Our commitment to corporate social responsibility also includes the environment. We support and promote well-balanced environmental business practices, with a goal of sustaining a healthy environment for future generations. Environmental stewardship is everyone's responsibility, and our environmental policy is focused on prevention and early identification as cornerstones for success in ensuring sustainable agriculture.

We use several tools to help customers manage environmental risk. Lending products, like FCC's Enviro-Loan, help producers and agribusiness operators make environmentally focused improvements and put stewardship into action. Ongoing staff training helps facilitate environmentally sound lending decisions and promotes a climate of awareness between FCC and our customers to encourage environmentally safe farming practices.

Customers complete an environmental questionnaire as a component of every new real property loan. In defined cases, FCC will perform site inspections and seek an environmental assessment report from a qualified consultant. Due diligence is conducted regarding the environmental risk posed by real property offered as lending security. Terms and provisions to safeguard the environment are standard in our loan documentation to encourage best management practices and further ensure that the applicable federal, provincial and municipal regulations and bylaws are met.

Recent amendments to the Canadian Environmental Assessment Act mean that Crown corporations, including FCC, will be subject to the Act following a three-year period. In co-operation with the Canadian Environmental Assessment Agency, we will develop regulations that will produce maximum benefit to all Canadians and FCC, while continuing to support well-balanced environmental business practices.

Experience agriculture

Experience:

Our lending solutions

The agriculture experience is as diverse as the Canadian landscape. Large-scale farms, niche operations and family farms are doing business in Canadian and global markets. The role of value-added activities and agribusiness has become increasingly important for the viability of Canadian agriculture.

Agriculture is an industry where one size doesn't fit all, and our attention to the full range of sectors, large and small, helps us develop the tailored solutions that our customers need to help them succeed. FCC works closely with producers and agribusiness operators to create financing that fits their sector and each stage of their business life cycle – from start-up to succession and retirement.

We're proud of the relationships that we've built with our customers, but maintaining the status quo isn't an option – we keep raising the bar to deliver even more value. We're working to provide our customers with a truly exceptional customer experience that they simply can't get anywhere else.

– Greg Stewart, Senior VP, National Lending Operations

"Our customers and our co-op members said they needed more financing options. We had to find a way to respond to that need, and the alliance with FCC was a good solution. We could provide a service without having to go into the lending business ourselves."

– Clarence W. Olthuis, Board Chair, United Farmers of Alberta Co-operative Ltd.

We have several lending solutions that help young producers purchase existing operations while providing adequate income for those leaving farming. Recognizing the growing interconnectedness of the industry, we also offer financial packages that address the needs of producer-run alliances, co-operatives and other integrated networks.

FCC believes in helping customers realize their potential and our employees work with each customer to determine the product that best meets their individual situation. We continue to develop new and innovative products that build upon our commitment to all sectors of the agriculture industry, and we review our product line regularly to ensure that every product is relevant to our customers' needs.

Because FCC only deals in agriculture, we can offer so much in terms of products and services tailored specifically to customers' needs. Whether they are buying their first quarter of land, expanding their operation or getting the next generation involved, we can customize financing to best fit each customer's needs.

– Aimée Basset, FCC Account Manager, Humboldt, Saskatchewan

From left to right: Denis, Arthur and Claude Fortier

"We are not the type of producers who constantly shop around looking for the best deal. Because we are involved in hog, poultry and dairy production, our financial needs have become complex. At FCC, we found a dedicated Account Manager who worked out the numbers for us and told us frankly what our strengths and weaknesses were. He identified needed improvements in our hog production activities, and we worked out an expansion project starting this spring. I don't know how we could put a value on the solid relationship we have with FCC."

- FCC customer Denis Fortier, Ferme Arclade Inc., St-Malachie, Quebec

Our loan products include:

Advancer Loan

A pre-approved, secured loan with the flexibility to re-advance funds at the producer's discretion.

American Currency Loan

For producers who derive a significant portion of their revenue in U.S. dollars. This loan enables them to borrow capital and make payments in U.S. dollars.

Capacity Builder Loan

Pre-approved financing up to one year, with the option to capitalize interest, for the purchase of quota and breeding livestock.

Cash Flow Optimizer Loan

Gives producers the freedom to invest funds that would normally go towards principal into other areas of their operation.

Construction Loan

Interim financing for up to 18 months on construction projects such as processing plants, cold storage and grain storage facilities. Funds are disbursed as needed during construction, but no payments are required until completion.

Enviro-Loan

Defer principal payments to construct, improve or expand operations while implementing sound environmental practices.

Farm Builder Loan

Interim financing for up to 18 months on construction projects such as milking parlours and farrowing barns. Customers can pause principal payments while building.

First Step Loan

Designed to help those with post-secondary education purchase their first farm-related asset.

Flexi-Farm Loan

Allows producers in all sectors to pause principal payments during the loan. Pauses can be for up to one year to ease cash flow during adverse conditions.

Herd Start Loan

Designed to give producers time after starting or expanding a livestock operation. The payments won't mature until the livestock matures.

1-2-3 Grow Loan

Use the interest-only payments to manage cash flow until a return on the investment can be seen.

Opportunity Loan

Permits principal payment holidays up to 12 months at any one time, allowing those funds to be used for other capital purposes.

Payday Loan

Financing for customers with off-farm employment interested in starting or expanding a farm business.

Performer Loan

Rewards customers with lower interest rates when their business achieves pre-set financial goals and ratios.

Plant Now – Pay Later Loan

Horticulture operations can have payments deferred until the new plantings start to generate cash flow.

Spring Break Loan

Designed for forestry operators who typically reduce their harvesting during spring road bans. The flexible payment schedule allows customers to pay during the actual harvesting season

Stop and Grow Loan

Woodlot owners can defer principal payments for an extended period so saplings can grow into profitable woodlots.

Transition Loan

Helps those wishing to purchase property from someone who is retiring and helps those retiring to receive the equity from their farm without risk.

> "We started our sugar maple operation in 1974 with 1,200 taps. Our first contact with FCC occurred during a major expansion and we now have 44,000 taps. When we wanted to go into forestry, we went back to FCC. Ours was among the first loans they were making in the sector, and they came through for us. Without FCC, I don't think we could have grown so big, so quickly."
>
> *– FCC customer Denis Côté, Les Bois Francs FBM Ltée near St-Quentin, New Brunswick*

Working together

In addition to providing a variety of customized loan products, we provide a choice of channels, offering our customers the flexibility to select when, where and how they want to do business with FCC. With approximately 100 offices across Canada, many in rural areas, our field staff deliver personalized service to customers where they live and work.

We also provide options for customers who prefer doing business on the phone or online. FCC's Customer Service Centre is open extended hours for the convenience of our customers. We enhanced our online offerings this year – in addition to providing loan product and corporate information through our redesigned Web site, registered borrowers and many alliance partners can now view their loans online, including loan terms, current balance, payment dates and history.

By integrating our field operations, Customer Service Centre and e-business activities, we offer seamless service to our customers and improve our internal processes. Our customer relationship management initiative, now in progress, will ensure that employees have the information they need at their fingertips to provide efficient, personalized service to our customers.

We have also created a series of innovative partnerships, or alliances, with other agricultural and financial organizations that enable us to pool our talents and provide expanded access to services for primary producers through other distribution channels. Business alliances allow our partners to maintain their independence, while adding value to their respective customers and operations through combined resources and expertise.

While some of our alliance customers are already FCC customers, many are new to our organization. We currently have alliance relationships with over 60 suppliers, financial institutions, agricultural groups and co-ops, offering a range of services from crop input and equipment financing to livestock financing.

FCC Ventures, a division of FCC, reflects our commitment to develop and deliver innovative financing solutions. We know that access to capital is an important issue for Canadian producers and agribusiness operators. As the agriculture industry changes and evolves, they need access to alternate sources of funding to get their operations off the ground and achieve long-term success.

The development of new technology has provided us with business delivery channels that were not available in the past, such as the Internet and our Customer Service Centre. FCC has invested regularly to meet the changing environment.

– Ron Vanasse, FCC Field Operations Auditor, Kanata, Ontario

We saw an opportunity for a strong leader to emerge as the impetus for growth and investment in the agriculture industry. Through venture capital funding, FCC is helping to finance well-managed businesses that have the potential to substantially impact agriculture across Canada. By supporting the growth of agribusiness, we directly contribute to the success of primary producers.

FCC Ventures provides equity and quasi-equity financing to small and medium-sized companies in the following sectors: value-added food manufacturing and processing, development and manufacturing of agricultural equipment, commercial processing, commercial-scale farming, businesses that support the agriculture sector and ag-biotech.

We have invested more than $13.7 million since the inception of FCC Ventures. Our initial investments have ranged from $500,000 to $2.5 million. In partnership with other investors, we have attracted a corresponding $24.9 million to further benefit the agriculture industry.

We are actively involved with our portfolio companies, assisting in the development of marketing and distribution channels and in strengthening management. In most instances, FCC Ventures seeks board representation and, in all cases, requires proper corporate governance standards.

A strategic advantage of FCC Ventures is our experience in agriculture. FCC's agribusiness field staff provide in-depth understanding of agriculture markets and industry trends. FCC's management team has extensive experience in finance, marketing, human resources, treasury and operations, and can help portfolio companies address difficulties in those areas. Access to this broad base of skills and expertise is unique and allows FCC Ventures to add value to our customers, our business and Canadian agriculture.

And adding value is ultimately what it's all about for everyone at FCC. Working in partnership with our customers and stakeholders, we are proud to experience Canadian agriculture every day – the opportunities and challenges, the big picture and the individual stories that make every customer and enterprise unique.

Agriculture. It's all we do.

The balanced scorecard

Every year, FCC measures progress toward achieving our corporate strategies by using a balanced scorecard. The scorecard translates FCC's vision and strategic thrusts into a series of measures and targets. Each falls into one of four different perspectives: people, customer, service and financial success. To realize success, FCC must balance efforts among all four areas.

The following pages summarize FCC's 2003-04 strategies for each of the four sections of the scorecard, results at year-end, and strategies and targets up to 2008-09.

The balanced scorecard provides a snapshot of where we have been and where we are going. It allows FCC and our partners to get a high-level view of the business, and to monitor our progress in fulfilling our mission.

Balanced Scorecard • People

Unique people leading our success

Corporate Strategy Statement

FCC will be a top company to work for in Canada, with high employee engagement and a culture of innovation and learning as measured by the people index.

Corporate Measure

The People Index (annual Employee Engagement Survey administered by Hewitt). Employee Engagement Score: move from 69 per cent (2003-04) to 76 per cent in 2008-09.

Strategies and Targets 2003-04	Results
Enhance leadership and employee engagement at all levels. • Raise FCC's employee engagement score to 70 per cent.	• In June 2003, FCC recorded an engagement score of 69 per cent in a study conducted by Hewitt and Associates, up one per cent from 2002. FCC also was recognized as one of Canada's top 50 employers (2003 Hewitt/Globe & Mail study).
• Develop and foster an innovative culture. • Benchmark innovative behaviour at FCC through a new innovation index.	• The innovation index was benchmarked as part of the June 2003 Employee Engagement study and action plans are in place.
• Create and share knowledge among all employees. • Post all corporate policies on FCC's corporate intranet.	• FCC redesigned the intranet to make it easier for employees to navigate and find information. The Lending Operations and Human Resources manuals were posted to the intranet during 2003-04.
• Expand the number of agricultural Communities of Practice (CoP) to 10, ensuring knowledge is shared freely among FCC employees.	• FCC launched three new Communities of Practice (Crops East, Crops West and Poultry) during 2003-04, bringing the total number to 10.

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Enhance leadership and employee engagement at all levels in the organization and build a learning organization.	• Enhance the workforce plan, including career paths, diagnostic tools and employee development plans. • Implement integrated and improved internal communication strategy.	• 2004-05: Identify 10 additional candidates for leadership development and complete workforce plan. • 2004-05: Increase employee engagement to 70 per cent. • 2008-09: Increase employee engagement to 76 per cent.
Create and share knowledge.	• Foster a learning environment that helps employees to excel as leaders in future business practices and technologies. • Measure and share output from 10 Communities of Practice (CoPs). • Keep Knowledge Management content on the corporate intranet fresh and responsive to user needs.	• 2004-05: Implement "Building Future Leaders" initiative. • 2004-05: Launch new CoP in additional agricultural sector and launch new CoP in credit risk/commercial lending.
Enhance risk management expertise.	• Enhance credit risk knowledge, tools and processes.	• 2004-05: Produce four agribusiness enterprise guides.
Make it easy for employees to do business.	• Align corporate capacity with business growth requirements.	• 2004-05: Implement corporate capacity planning.

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategy Statement

FCC will sustain high customer loyalty, grow its loan portfolio, invest in venture capital and deliver products and services to enhance producer and agribusiness management practices in order to support agriculture in Canada.

Corporate Measure

Customer Loyalty Index: minimum of 4.24*

Loan portfolio growth: average annual growth rate of 7.8 per cent over five years

Venture capital investments: $67M invested through 2008-09

Business Services growth

Overall Reputation Index: maintain at 134**

Strategies and Targets 2003-04	Results
Enhance customer loyalty and acquisition with a focus on primary producers and the agribusinesses and alliances that support them. • Maintain customer loyalty index at 4.24* out of a maximum possible score of 5.77.	• Customer Loyalty Index score was maintained at 4.24*. This survey, which measures customer satisfaction and perception of value obtained from FCC services, will be repeated in 2004-05.
Demonstrate visible commitment to the full spectrum of the agriculture industry. • Disburse $1.56 billion through farm finance lending, $473 million through agribusiness lending and $490 million through alliance partnership lending.	• FCC provided new loans to a wide range of farm and agribusiness operations across Canada during 2003-04, both through direct lending and through alliance partners. A total of $1.99 billion was disbursed through farm finance, exceeding the target for 2003-04. Agribusiness disbursements totaled $496.1 million. Disbursements through alliance partners totaled $374.6 million. This was below the target for the year, due largely to the impact of BSE on beef producers and on FCC's alliance partners in this sector.
Develop and implement business services, with emphasis on improving producer management skills and serving each life phase. • Achieve $2.4 million in revenues through the sale of AgExpert software. • Expand AgExpert software customer base to 14,400. • Achieve $10.3 million in revenues through the sale of AgriAssurances insurance products. (Revised target $9.34 million) • Attract 2,500 participants to professional development programs.	• The new AgExpert division was successfully integrated into FCC. Due to the transition period, however, revenues reached just $1.25 million, short of expectations. The customer base for AgExpert's software grew to 13,737. The three-year targets and outlook remain in place. • Revenues from AgriAssurances reached $9.8 million. • FCC offered professional development workshops and seminars across Canada. In 2003-04, professional development training was delivered to 2,757 participants: 1,425 attended AgriSuccess events, 1,308 attended AgExpert software and management training and 24 producers participated in the pilot of FCC's Advanced Farm Manager course.
Serve as a catalyst for venture capital investment in the agriculture industry. • Invest a total of $22 million in FCC venture capital funds. • Attract $25 million in venture capital co-investment from other institutions.	• 2003-04 was the first full year for FCC's Venture Capital fund: FCC invested $11.7 million in six deals, while attracting $20.6 million in co-investment funds from other institutions. • We have invested more than $13.7 million since the inception of FCC Ventures. Our initial investments have ranged from $500,000 to $2.5 million. In partnership with other investors, we have attracted a corresponding $24.9 million to further benefit the agriculture industry.

*Customer Loyalty Index (CLI) includes customer satisfaction and perception of value obtained from FCC services. The maximum possible score is 5.77.
**FCC's reputation index is very good at 134, which the corporation seeks to maintain.

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Grow returns by serving customers.	• Targeted Agribusiness and Farm Finance portfolio growth.	• Disbursement targets: 2004-05: $2.17B 2008-09: $3.11B
Stimulate access to venture capital funds.	• Established venture capital fund with an active portfolio. FCC will allocate additional capital based on performance of the portfolio.	• 40 per cent of investments will carry a current yield. • For every dollar invested by FCC Ventures, an additional $1.30 will be attracted to the industry. • Cash disbursed for capital invested: 2004-05: $25M 2005-06: $16.5M 2006-07: $16.5M 2007-08: $10M 2008-09: $10M* • Interest and fee revenues: 2004-05: $1.8M 2005-06: $2.4M 2006-07: $3M 2007-08: $3.4M 2008-09: $3.4M
Develop processes to enhance coordination of business lines.	• Strengthen the National Business Plan.	• 2004-05: Clearly defined sales and marketing roles. • Integration of all business lines. • Geographic and sector strategies.
Improve customer choice by developing alternate delivery channels.	• Targeted, diversified alliance portfolio growth. • Customer Service Centre (CSC) firmly established as an alternate channel with direct lending.	• Alliance Disbursements: 2004-05: $558M 2008-09: $1B • CSC Alliance Loan Processing: 2004-05: $558M 2008-09: $1B • CSC Dealer & Retail Lending: 2004-05: $120M 2008-09: $240M • CSC Inbound Calls: 2004-05: 50,000 2008-09: 55,000 • CSC Outbound Calls: 2004-05: 15,000 2008-09 : 20,000
	• Establish e-business as a delivery channel.	• Alliance e-solutions: 2004-05: Loan origination 2004-05: NEDFP (National Equipment Dealer Financing Program) site 2006-07: Alliance portal • Customer e-solutions: 2004-05: Online loan application for scorecard lending and lending process workflow 2006-07: Customer portal • Registered users: 2004-05: 11,000 2008-09: 20,000
	• Integrated and profitable AgExpert business unit.	• AgExpert revenue: 2004-05: $2.4M 2008-09: $5.25M • Unique AgExpert customers: 2004-05: 17,300 2008-09: 25,000

*Allocated funds for the current Venture Capital business plan end in 2008-09

Balanced Scorecard • **Customer**

Create solutions for customer success

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Broaden revenue mix with new products and services.	• AgriSuccess – Comprehensive suite of training and management information offerings to enhance producer and agribusiness management practices.	• AgriSuccess participants: 2004-05: 1,500 2008-09: 2,000 • AgExpert training participants: 2004-05: 1,700 2008-09: 3,000 • Advanced Farm Manager training: 2004-09: 100 participants annually • AgExpert Newsletter distribution: 2004-05: 15,000 2008-09: 30,000 • AgriSuccess Journal distribution: 2004-05: 12,000 2008-09: 30,000
Introduce lending products for new and traditional segments.	• Insurance – Full suite of insurance products to complement FCC's core business product suite.	• Life and accident insurance sales: 2004-05: $9.92M 2004-05: Develop and launch three new insurance offerings (insurance for Advancer Loan, term insurance (referral) and group benefit plan) 2008-09: $13.34M
	• Innovative and actively managed product suite.	• Product suite: 2004-05: Product pricing strategy implemented as per plan. New product penetration business plan targets achieved.
Implement Customer Relationship Management (CRM).	• CRM implementation and integration into ongoing operations.	• 2004-05: CRM wave two and long-term structure in place. • 2005-06: CRM wave three.
	• Develop internal marketing research capacity to enhance understanding of customers.	• 2004-05: Every customer with a new loan is surveyed and every exiting customer is surveyed. • 2005-06: National panel activated. • Impact CLI, Customer Experience Index and efficiency ratio.
Ensure customers perceive value in the relationship.	• Improve value-added service levels and capacity with a customer-driven focus.	• 2004-05: Central reporting for post-loan and exit survey. • Successful, on-budget completion of Customer Loyalty Index.
Grow awareness with target publics.	• Design quantifiable metrics that reveal impact of brand/communication activities on sales and customer loyalty.	• 2004-05: Develop and implement Brand Equity action plans.
Grow the value of FCC's brand equity.	• Increase reputation through the innovative use of community investment funding and strategies aimed at non-customer stakeholders.	• 2004-05: Improve Corporate Reputation Index re "contribution to community."
	• Implement campaign regarding pride in agriculture.	• 2004-05: Create initiatives and implement campaign.
	• Full implementation of national Speakers Bureau.	• 2004-05: Increase visibility with target audiences.

Balanced Scorecard • Service

Make it easy for customers to do business

Corporate Strategy Statement
FCC strives to be easy to do business with – as measured by our Customer Experience Index.

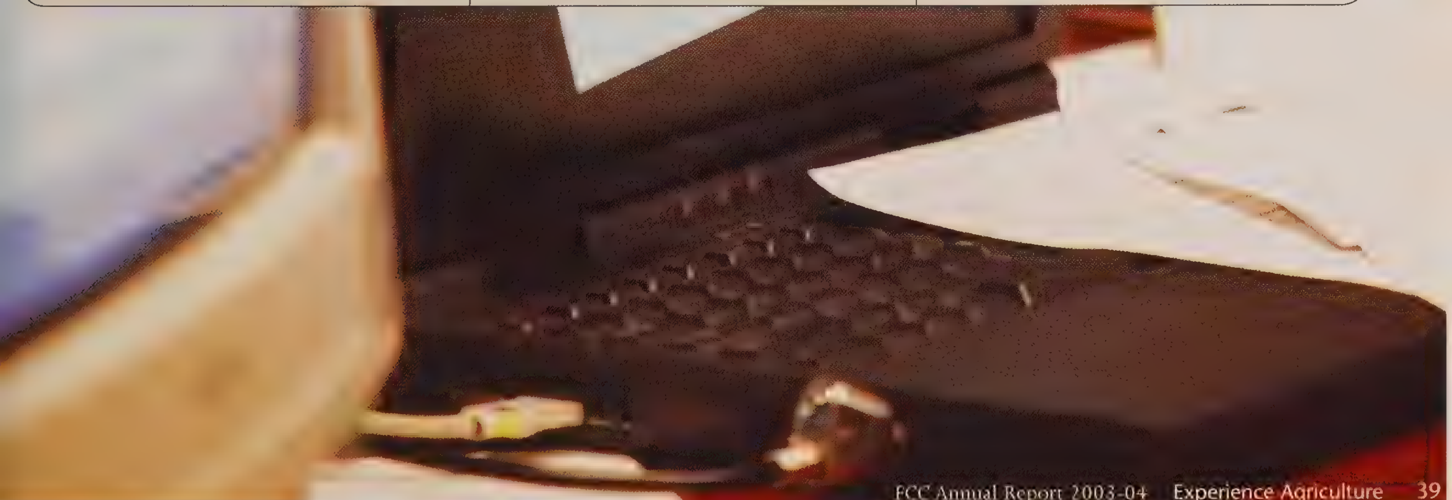
Corporate Measure
Customer Experience Index =
Service Provision Index + Customer Turnover Measure.

Strategies and Targets 2003-04	Results
Build infrastructure to support partnerships and alliances. Enhance performance of information technology systems and processes. • Establish a benchmark through a new IT performance index.	• In 2003-04, FCC began to use a Capability Maturity Model (CMM) index to measure the performance of the corporation's information technology systems. A CMM mini-assessment of IT has been completed.
Improve customer choice by developing alternate product and service delivery channels. • Increase customer contacts through the Customer Service Centre to 42,600. • Increase the number of customers served through e-business channel (FCC Web site) to 8,500.	• FCC continues to develop alternate channels that allow customers the flexibility to access information or services by phone or over the Internet. In 2003-04, FCC's Customer Service Centre logged a total of 76,073 customer contacts. At the end of 2003-04, FCC's Web site had 9,037 registered users. In addition, 48 alliance partners with 1,737 customers were working with FCC through one or more online e-business applications.
Implement Customer Relationship Management (CRM) infrastructure and processes. • Install wave one of CRM software and train targeted staff.	• During 2003-04, wave one of CRM was completed and staff across the country were trained on its use.

Balanced Scorecard • **Service**

Make it easy for customers to do business

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Ensure appropriate risk management practices in all areas.	• Comprehensive suite of portfolio risk management tools that reflect leading-edge practices, including improvement of credit risk tools and processes and update of audit programs for consistency with changing environment/industry standards. Improve service levels and capacity with customer focus.	• 2004-05: Initial implementation.
Improve integration of business information systems.	• Implement core systems integration to ensure seamless installation of major systems. • Replace loan servicing system.	• 2004-05: Establish high-level project sequencing. • Assess internal versus external resource requirements. • 2004-05: Initiate project based on outcome of high-level project sequencing and resource capacity.
Enhance successful strategy integration and execution.	• Fully implement project portfolio management. • Align corporate capacity with business growth requirements. • Align IT system development and implementation with corporate prioritized project list.	• 2004-05: Master corporate project plan. • Implement revised activation process. • Implement capacity planning tool.
Optimize productivity through continuous process improvement.	• Broaden Business Process Reengineering (BPR) to encompass continuous improvement and innovation.	• Implement BPR recommendations: 2004-08: Loan Maintenance. 2004-05: Translation & Official Languages, Administration.
Build partner/alliance systems infrastructure and applications.	• Expand/refine service delivery model for partners.	• 2004-05: Develop Alliance e-solutions (online portal). • Develop online transactional capability.



Balanced Scorecard • **Financial Success**

The foundation for customer support

Corporate Strategy Statement

FCC will remain financially self-sustaining, through profit and operating efficiency, in order to grow its support for agriculture and customers.

Corporate Measure

Return on Equity (ROE): 2004-05: 10.74 per cent,
2008-09: 12.49 per cent

Debt-to-Equity Ratio: 10:1 or better

Efficiency Ratio: under 45 cents

Strategies and Targets 2003-04	Results
Ensure prudent financial management. • Achieve Return on Equity (ROE) of 12.48 per cent. • Ensure a maximum debt to equity ratio of 9.5:1. • Maintain strategic credit risk score on lending portfolio at less than 70. • Improve corporate efficiency ratio to 43.1 per cent.	• Return on Equity (ROE), a measure of profitability, was 11.7 per cent in 2003-04. • FCC has a legislated maximum debt-to-equity ratio of 12:1. As of the close of 2003-04, the debt-to-equity ratio was 9.8:1, slightly above the target for the year. • The strategic credit risk score (SCRM) on FCC's portfolio was 59.5, well below the target maximum of 70. • FCC's efficiency ratio, a measure of how well resources are used to generate income, improved to 41.1 per cent from 42.3 per cent the previous year.
Enhance strategy integration and execution. • Install standardized project management methodology for major corporate strategies. • Establish benchmark score for brand equity reputation index.	• FCC has developed a Project Portfolio Management (PPM) process to manage and prioritize corporate projects. • A Brand Equity study was completed in 2003 to measure attitudes regarding FCC among stakeholders. FCC achieved an exceptional reputation index of 134, well above the average of 100.

Corporate Strategies 2005-09	Strategic Initiatives 2004-05	Measures and Targets
Maintain self-sustaining independent growth.	• Implement systems and processes to improve profitability reporting and analysis. • Diversify investors and funding sources. • Maintain corporate efficiency ratio by seeking internal efficiencies and rewarding them.	• 2004-05: Improvements in profitability reporting and analysis. • 2004-05: Maximize margins. • 2004-05: Efficiency ratio under 45 cents.

Management's *discussion* and analysis

Overview of the MD&A

Management's Discussion and Analysis (MD&A) of FCC's operating and financial results provides management's perspective on performance in fiscal 2003-04, risk management activities and the outlook for 2004-05. The MD&A is presented in eight sections:

Objectives, Measures and Targets

(page 42) provides a summary of the key measures and targets contained in the Corporate Plan that management uses to assess financial performance and our objectives.

Portfolio Growth

(page 43) provides an analysis of the portfolio and disbursements by line of business.

Credit Quality

(page 45) provides a discussion of the provision for credit losses, impaired loans and arrears, and the allowance for doubtful accounts.

Return on Equity

(page 46) provides an analysis of the return on equity, net income, net interest income and funding (debt and equity funded).

Efficiency and Cost Control

(page 48) includes a discussion of corporate efficiency ratio and non-interest expenses and administrative expenses.

Business Services

(page 48) provides an overview of FCC's business activities outside of the principal business of agricultural lending. These include FCC Ventures, AgExpert, AgriAssurances and AgriSuccess.

Enterprise-Wide Risk Management

(page 50) provides an overview of credit risk, market risk and operational risk.

Significant Accounting Policies

(page 57) provides a more in-depth discussion of FCC's accounting policies.

Caution regarding forward-looking statements

The MD&A includes forward-looking statements and assumptions based on management's best estimates. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate, which may cause results to differ materially from those estimates. Some factors that could cause such differences include general economic and market conditions, including, but not limited to, changes in interest rates.

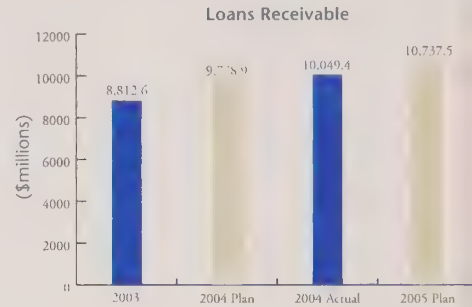
Objectives, measures and targets

Governing objective: financial success

To continue serving customers effectively and supporting the agriculture industry through all economic cycles, FCC must be financially viable. We need the resources to withstand the fluctuations intrinsic to the agriculture industry while continuing to support our customers through all economic cycles, and to continue growing and expanding products, which now extend beyond financial products to business services.

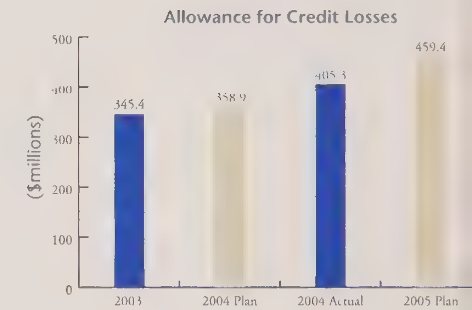
It is important to generate a rate of return that allows the corporation to remain self-sustaining and that provides for future growth. A financial framework helps determine an adequate return for FCC. We are building on a solid foundation, ensuring our viability through sound financial and risk management practices, a loan portfolio diversification plan and expanded product offerings.

FCC uses the following objectives and related measures to monitor our financial viability to ensure our governing objective is met.



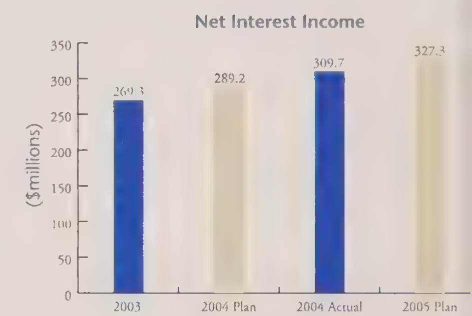
Portfolio growth

In 2003-04, the portfolio grew by $1,236.8 million, representing growth of 14.0 per cent over 2002-03. Driving this growth were total net disbursements of $2,861.7 million, offset by prepayments of $573.2 million and principal coming due of $1,041.7 million. A detailed discussion follows on page 43.



Credit quality

In 2003-04, the provision for credit losses was $84.0 million, with the overall allowance for credit losses reaching $405.3 million. The allowance now represents 4.6 per cent of the opening loan portfolio. Both the provision and the allowance are higher than the prior year due to the growth in the portfolio and problems encountered in the agricultural sector as a result of BSE and drought. A detailed discussion follows on page 45.



Return on equity

The key driver of return on equity is net interest income. In 2003-04, net interest income was $309.7 million. This represents growth of $40.4 million from a year ago, primarily due to the growth in the portfolio and lower interest rates. The margin on the portfolio was 3.18 per cent, which is up 4 basis points from the prior year and 12 basis points over plan. A full discussion is provided on page 46.

Efficiency and cost control

In 2003-04, administration expenses were $131.9 million. This represents growth of only 10.6 per cent from a year ago, despite a 15.0 per cent increase in net interest income and a 14.0 per cent increase in the portfolio. This resulted in an improvement in the efficiency ratio of 1.2 per cent to 41.1 per cent. A full discussion is provided on page 48.

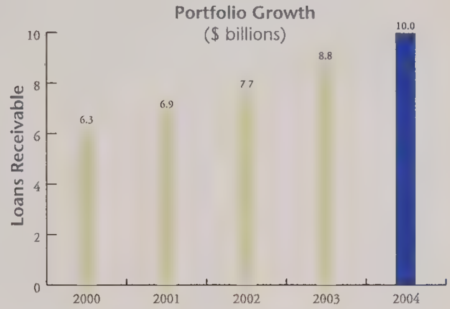
Portfolio growth

Lending activity

The loan portfolio grew 14.0 per cent to $10.0 billion in 2003-04, up from $8.8 billion in 2002-03. FCC approved $3.4 billion in loans for the year, compared to $3.1 billion in 2002-03. This, combined with a 96.5 per cent (2002-03 97.3%) renewal rate on loans coming due, accounts for the significant portfolio growth.

Lending by line of business

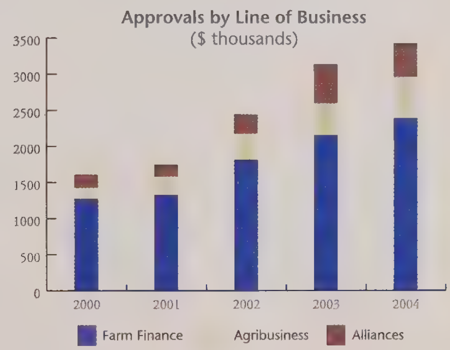
FCC's lending activities are divided into three lines of business: Farm Finance, Agribusiness, and Alliances. Although we expanded our offerings to meet the changing needs of the industry, supporting primary producers continues to be our focus. Lending to primary producers, done through all three lines of business, totalled $3.1 billion or 90.2 per cent of total 2003-04 approvals and accounts for 90.5 per cent of FCC's total loan portfolio as of March 31, 2004.



Farm Finance *(defined as farming that produces raw commodities: crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness)*

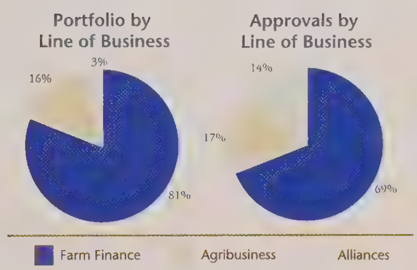
During the year, Farm Finance accounted for 69.8 per cent of all loan approvals, increasing to $2.4 billion from $2.2 billion in the prior year. The Western and Prairie regions saw the largest increases in Farm Finance lending. The Farm Finance loan portfolio relating to primary producers continues to account for nearly 99 per cent of the total Farm Finance portfolio.

Agribusiness *(includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; primary producer farming operations with the complexity and scope to be classified as Agribusiness)*



Agribusiness loan approvals grew to $566.1 million in 2003-04 from $436.9 million in 2002-03. The largest increases in Agribusiness lending were in the Western and Ontario regions, mainly in the crop sector, which showed increases of $46.0 and $42.3 million respectively. FCC knowledge, expertise and financial solutions assisted these customers to grow and diversify in their target markets.

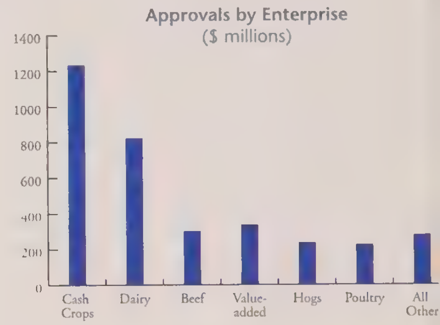
The corporation finances a wide range of agriculture-related businesses on both the input and output sides of primary production. This includes enterprises from feed operations to food processing and agricultural byproduct manufacturing. FCC has been successful in expanding into this market while maintaining relationships with primary producer agribusiness. Agribusiness lending to primary producers increased from 41.2 per cent in 2002-03 to 47.9 per cent in 2003-04. As of March 31, 2004, loans to primary producers made up 47.1 per cent of the total Agribusiness loan portfolio.



Alliances *(relationships between FCC and other agricultural or financial organizations designed to pool talents and provide expanded services to primary producers)*

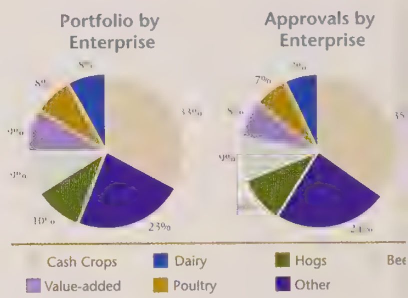
During the year, the growth in the Alliance lending portfolio slowed, with loan approvals of $470.6 million, compared to $542.9 million in 2002-03. Approvals in Alliances decreased due in large part to the decrease in lending to the beef sector as a result of BSE. The largest decreases in lending were seen in the Prairie and Ontario regions. Primary producers continue to be the focus of Alliance lending and account for nearly 99 per cent of the Alliance portfolio.

FCC continues to develop Alliance partnerships as a means of expanding our service offerings. These innovative relationships allow FCC to serve agriculture without the need for direct involvement with the end customer. For example, FCC has entered into alliance partnerships that allow the corporation to support crop input financing using the alliance partners' customer service networks. Continuing to build on these and other opportunities through partnerships is an important part of FCC's future.



Lending by enterprise

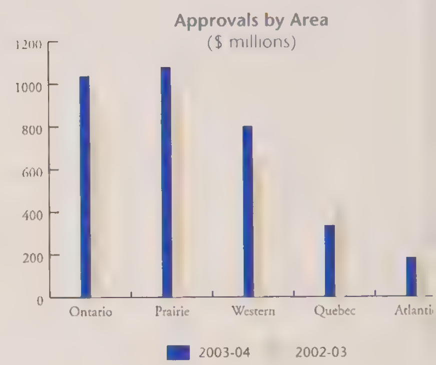
FCC lends to all agricultural sectors across Canada, grouped into seven major categories. Strong portfolio diversification across these categories is critical in managing the risk and financial performance of the corporation during cyclical and economic swings.



The total portfolio of all sectors has remained relatively constant, despite the slight shift in the lending mix from the prior year. As a percentage of total approvals, there were increases in the cash crops and other enterprises of 3.4 per cent and 1.5 per cent respectively, while there was a decrease in the beef enterprise of 3.9 per cent. The decrease in lending to the beef enterprise is due to the decreased demand for new lending in the sector as a result of BSE. The total portfolio of the two major agricultural sectors, cash crops and dairy, has remained constant at 56.3 per cent.

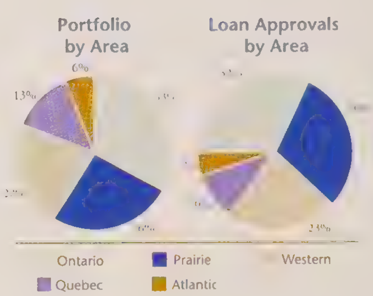
Lending by geographic area

FCC offices are located in approximately 100 rural communities from coast to coast. This promotes the geographically diverse portfolio necessary to limit portfolio risk.



FCC experienced an increase in loans approved over the previous year in the majority of areas across the country. The Prairie and Western areas experienced the largest increases, with $98.7 million and $158.5 million more approvals respectively. The largest increases in both the Prairie and Western areas were in the cash crop and dairy enterprises.

Overall portfolio growth of 14.0 per cent in 2003-04 is due primarily to significant increases in the Western area (18.9 per cent) and Ontario area (15.4 per cent), a reflection of growth in the dairy, crop and other industries in these areas.



Credit quality

Provision for credit losses

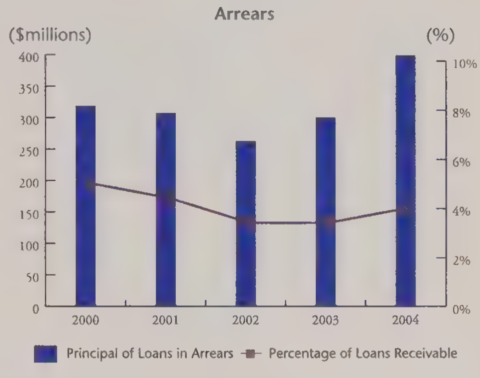
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

The provision for credit losses increased to $84.0 million in 2003-04 from $67.2 million the previous year as a result of a larger portfolio, increased impaired loans and difficult economic conditions in some sectors within the portfolio. The provision for credit losses is expected to remain at or above the current level in relation to the credit risks associated with a growing loan portfolio.

Impaired loans and arrears

Loans are classified as impaired when, based on management's judgment, there is no longer reasonable assurance of the timely collection of principal and interest. Arrears are defined as all amounts greater than $500 that are past due.

Arrears increased from $31.2 million in 2002-03 to $39.9 million in 2003-04, and the principal balance of loans in arrears as a percentage of loans receivable increased 0.6 per cent to 4.0 per cent. Impaired loan balances at the end of 2003-04 totaled $205.3 million, compared to $142.9 million in the previous year. Impaired loans as a percentage of closing loans receivable increased to 2.0 per cent from 1.6 per cent in 2002-03. The slightly higher arrears and impaired loans reflect some of the events that occurred in the agricultural operating environment such as BSE, drought and the strengthening Canadian dollar. FCC continually monitors loans in arrears to identify potential impaired loans and is proactive in developing solutions to help customers through difficult times.



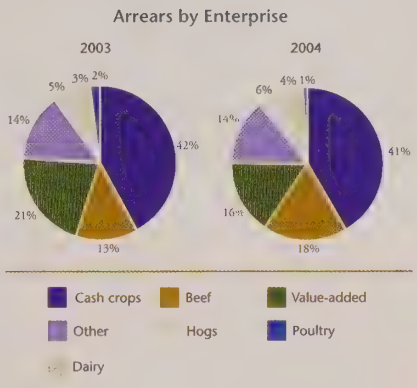
Allowance for credit losses

Allowance for credit losses is management's best estimate of credit losses in the loans receivable portfolio (described further in note 2) to the financial statements).

The allowance for credit losses has three components:

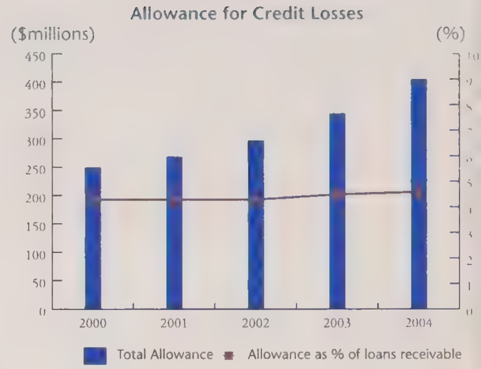
Specific – provides for probable losses on specific loans that have become impaired.

General allocated – management's best estimate of probable losses that exist in the portfolio and have not yet been specifically identified as impaired. The allocated amount considers the corporation's Risk Scoring and Pricing System (RSPS) to identify loans that have shown some deterioration in credit quality.



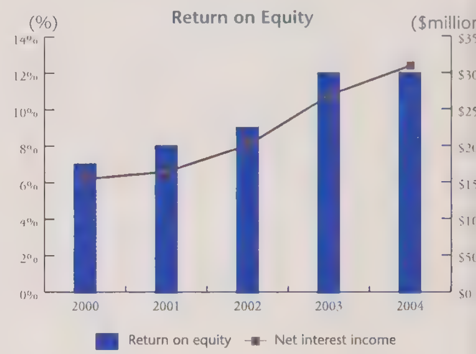
General unallocated – the unallocated portion considers recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

Due to the large growth in the portfolio, the actual allowance for credit losses increased by 17.3 per cent to $405.3 million, from $345.4 million in 2002-03. The allowance as a percentage of opening loans receivable also increased to 4.6 per cent in 2003-04, compared to 4.5 per cent for the prior year. In order to limit credit losses and continue to meet the future needs of the agricultural industry, FCC will continue to make every effort to proactively work with customers in developing flexible solutions during difficult times.



Return on equity

Return on equity is a strong indicator of whether FCC can generate enough return to be able to provide the programs and products we need to meet our governing objective. Our return on equity was 11.7 per cent for 2003-04, down from 12.2 per cent the previous year and 0.5 per cent below plan. Return on equity was lower than prior year primarily due to the increased provision for credit losses.



Net income

Net income for the year increased 8.6 per cent to $105.1 million from $96.8 million the previous year. This increase was primarily the result of higher net interest income driven by a larger portfolio. Net income allows the corporation to play an increasing role in the industry since all income is reinvested into agriculture through financing portfolio growth, new product development, programs and business services.

Net interest income

Net interest income is the difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income increased to $309.7 million from $269.3 million last fiscal year, a total increase of 15.0 per cent. The major factors contributing to this increase are:

- portfolio growth – the loans receivable portfolio for 2003-04 is up by $1.2 billion over 2002-03, which contributed $31.3 million more net interest income; and
- interest rate movements – lower interest expense more than offset lower interest revenue, increasing net interest income by $9.1 million.

Net interest income and margin

	2004	2003
	$ millions	
Interest income	$ 617.4	$ 558.1
Interest expense	307.7	288.8
Net interest income	$ 309.7	$ 269.3
Average total assets	$ 9,748.5	$ 8,567.7
Net interest margin	3.18 %	3.14 %
Year-over-year change in net interest income due to:		
Increase in volume	$ 31.3	$ 35.2
Movement in rates	9.1	32.9
Total change to net interest income	$ 40.4	$ 68.1

Net interest margin

	average daily balance 2004	rate
	$ millions	
Earning assets:		
Fixed loan principal balance	$ 4,424.7	7.35 %
Variable loan principal balance	4,865.9	5.46 %
Investments	469.4	2.82 %
Total earning assets	$ 9,760.0	6.33 %
Total interest-bearing liabilities	8,641.5	3.48 %
Total interest rate spread		2.85 %
Impact of equity financing	$ 1,118.5	0.33 %
Net interest margin		3.18 %

The net interest income margin is the net interest income expressed as a percentage of the average total assets. It is intended to cover credit risks and administration expenses, as well as yield sufficient profit to enable the corporation to remain financially viable and sustain support for agriculture.

Funding activity

FCC raises funds through multiple domestic and international capital market borrowing programs. Short, medium and long-term sources of funds include:

- Domestic Commercial Paper Program;
- Domestic Medium and Long-Term Note (MTN) Program;
- Euro Commercial Paper Program; and
- Euro Medium-Term Note (EMTN) Program.

Short-term funding

Short-term funding consists of borrowings with a term to maturity of under one year. This includes the Domestic and Euro Commercial Paper programs as well as MTN and EMTN debt with less than one year to maturity.

The outstanding short-term borrowings at March 31, 2004 were $2.1 billion, compared to $1.5 billion as at March 31, 2003. We increased our short-term borrowings to more closely reflect the growth seen in variable-rate mortgages.

Medium and long-term funding

Medium to long-term funding consists of all borrowings with a term to maturity of over one year. This includes all MTN and EMTN debt with over one year to maturity.

During 2003-04, FCC borrowed a total of $3.2 billion in medium and long-term funds, up from $2.9 billion in 2002-03. The increase is due to higher levels of debt maturing this year, increased structured note issuances and portfolio growth. In 2003-04, $2.8 billion of MTNs were issued in the domestic bond market through a combination of retail, institutional and structured notes. FCC also issued $373.9 million in the EMTN market, down from $491.4 million in 2002-03.

Debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. During 2003-04, the corporation's debt ratings were unchanged by Moody's Investors Service and Standard & Poor's. FCC's foreign and domestic debt ratings are detailed as of March 31, 2004.

	Domestic debt		**Foreign debt**	
	Long-term	Short-term	Long-term	Short-term
Moody's	Aaa	P1	Aaa	P-1
Standard & Poor's	AAA	A-1+	AAA	A-1+

FCC continuously pursues opportunities to diversify funding sources and access cost-effective funds from the capital market. Such initiatives are established pursuant to and in accordance with the Minister of Finance's Guidelines for Market Borrowings by Crown Corporations.

Capitalization

FCC's gross assets are $10,619.6 million, which are supported by equity and allowances of $1,353.1 million. At this level of capitalization, 12.7 per cent (2002-03 – 12.7%) of assets do not require external debt financing.

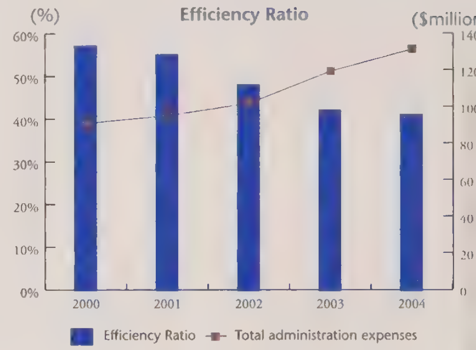
Capitalization

	2004	**2003**	**2002**
		$ millions	
Equity:			
Capital	**507.7**	507.7	507.7
Retained Earnings	**440.1**	335.1	238.2
Subtotal	**947.8**	842.8	745.9
Allowances	**405.3**	345.5	297.3
Total capitalization	**1,353.1**	1,188.3	1,043.2

Efficiency and cost control

Efficiency ratio

The efficiency ratio measures the percentage of each dollar earned in net interest income that is spent in the operation of the business.

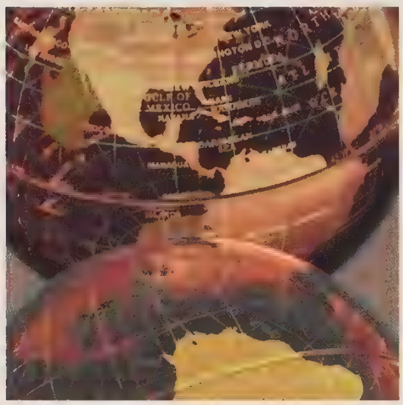


Despite 15.0 per cent growth in net interest income in 2003-04, administration expenses increased by only 10.6 per cent to $131.9 million from $119.3 million in 2002-03. This improved the efficiency ratio, a measure of how well resources are used to generate income, to 41.1 per cent in 2003-04, compared to 42.3 per cent in the previous year.

FCC systematically builds and leverages our agricultural expertise, keeping service levels high while remaining cost efficient. FCC is committed to providing products and services to help agricultural operators succeed throughout the life cycle of their business by:

- continuously improving product and service delivery;
- offering a variety of service channels, including the Internet, for improved service to customers; and
- continuous quality improvement.

The improvement in the efficiency ratio reflects the benefits derived from strategic initiatives in 2003-04 and prior years. A steady focus on process redesign and improvement provides better utilization of resources. The efficiency gains provide capacity to support growth in lending and enhanced product support, market development and customer service.



Business services

Overview

FCC has undertaken several initiatives to support the agriculture industry beyond the core business of lending. These include the following:

FCC Ventures

FCC Ventures is a venture capital fund that was formed in 2002-03 to address the critical need for more venture capital in agriculture to help fund the growth of the industry.

FCC Ventures made significant progress during fiscal 2004 toward establishing the division as the leader in providing equity and mezzanine financing to Canadian agribusinesses. The division has reviewed over 400 business plans to date in all areas of the country and in various sectors ranging from food processing to agricultural biotechnology. FCC Ventures now has an office in St-Hyacinthe, Quebec. The division has a total of five full-time investment professionals.

During the year, the fund completed six transactions for a total of $11.7 million (2004-05 plan $25 million) invested. As a result of FCC Ventures' direct capital invested, various venture capital and private equity funds throughout Canada co-invested an additional $20.6 million. The breakdown of the investments by enterprise sector is as follows: three in agricultural biotechnology, one in agricultural biomass, one in value-added equipment manufacturing, and one in an agricultural industrial supplies business. The investments were made in the Ontario, Prairie and Western areas. As a result of FCC Ventures' activities, Canadian agribusinesses have a greater ability to access capital. FCC Ventures continues to raise the profile of the agribusiness sector among other Canadian venture capitalists and financial institutions.

AgExpert

AgExpert was acquired by FCC in 2002-03 through the purchase of 100 per cent of the outstanding common shares of Settler Computer Technologies Inc. This included the rights to AgExpert, Canada's leading farm management software.

Since the purchase of AgExpert in October 2002, FCC has been working to enhance the software for application across Canadian agriculture, improve the technical platform, re-brand to the FCC brand, and provide bilingual capabilities. The improved AgExpert Analyst and AgExpert Field Manager were launched late in the fiscal year resulting in $1.2 million in gross revenues. Sales were below plan due to the late launch of the improved products. Software sales are expected to increase to $1.4 million in 2004-05 from $0.4 million in 2003-04, while gross sales are expected to increase to $2.4 million in 2004-05. These increases are expected to occur as AgExpert gains recognition in the marketplace and draws on the current strength of the FCC brand and distribution network.

Key performance drivers of AgExpert include the product's ongoing relevance to agriculture-specific market requirements, including the new Canadian Agriculture Income Stabilization (CAIS) program and emerging on-farm food safety production initiatives. Expanded product distribution through FCC field offices and industry influencers will enable market share growth and revenue increases.

AgriAssurances

FCC has been offering group creditor life insurance since 1960. In the past 18 months, the core Loan Life and Accident Insurance program has been improved and re-launched under the name of AgriAssurances. The program was re-launched to reduce the plan risk, reduce premiums, bring the plan in line with industry standards and streamline processes. New programs have also been created to service niche groups that were previously unavailable. AgriAssurances allows FCC to provide protection for FCC customers and a risk mitigation strategy for both the customer and FCC.

FCC presently offers a group creditor insurance plan through Sun Life Assurance Company of Canada. Sun Life insures the outstanding balance on loans, up to a maximum of $1.5 million per customer. At the end of 2003-04, the program had $3.4 billion in total insurance coverage outstanding, compared to $3.1 billion at the end of 2002-03. The total amount of new insurance coverage sold was $464 million in 2003-04, compared to $491 million in 2002-03. FCC earns revenues from this program in the form of administration fees and plan profits. Gross revenues earned by FCC relating to AgriAssurances were $5.1 million in 2003-04, compared to $6.1 million in 2002-03.

AgriSuccess program

As part of our governing objective to support agriculture in Canada, FCC, in partnership with the Canadian Farm Business Management Council (CFBMC), introduced a comprehensive suite of management training and information programs called AgriSuccess. FCC research indicated that customers in all stages of the life cycle require assistance in developing effective farm management practices. This research also pointed to a significant need in the marketplace for additional management training opportunities for producers. FCC has made a conscious effort to help close this gap by developing and delivering programs that cover the entire spectrum of farm management issues. With the help of carefully selected industry partners, FCC delivers these professional development programs under the AgriSuccess banner.

This program is offered for the purpose of sustaining and enhancing Canadian agriculture, even though direct financial returns are expected to be less than the amount of the annual investment. The cost of developing and delivering the programs was $0.4 million. In 2003-04, the total revenue relating to AgriSuccess was $41.0 thousand. AgriSuccess events were held across the country with a total of 1,425 participants.

Enterprise-wide risk management

Highlights:

- In 2003-04, Integrated Risk Management carried out a comprehensive process to identify and describe specific risks to the corporation.
- Continued improvements of the portfolio vision and portfolio diversification strategy added to greater understanding of FCC's quantified credit risk.
- Internal audits focus on providing management with an independent assessment of corporate business processes, internal controls and risk mitigation strategies.

Overview

Risk management is key to protecting FCC's customers, business interests and future viability. FCC is exposed to many different risks in our dual role as a self-financing financial institution and a vehicle for federal public policy.

The first concern of the Board of Directors and senior management is strategic risk. Failure to properly execute strategy to meet the needs of the marketplace or FCC stakeholders can dramatically impact the corporation's business. Without effective execution of business strategy, the corporation's other efforts at risk mitigation could be compromised as well.

FCC's business strategy addresses three specific types of business risks: credit risk, operational risk and market risk.

Credit risk

The risk of loss due to the failure of a counterparty to meet its financial obligations. This risk includes:

- risk of borrower defaults and associated losses; and
- risk of failure of other counterparties to honour contract arrangements.

Credit risk is inherent both in FCC's lending portfolio and in our funding and investing programs.

Operational risk

All risks inherent in the operational activities of the corporation:

- control and compliance;
- policies, procedures and processes;
- fraudulent or unauthorized activities;
- information technology;
- e-business; and
- new or unproven business.

Market risk

The potential for loss to FCC as a result of adverse changes in underlying market factors, including interest rate variability.

Integrated risk management

Integrated Risk Management (IRM) helps FCC balance our risk-taking and risk management practices within the context of achieving our business goals and objectives. IRM creates a common understanding of risk, including the interdependence of risks and the need for risk management to be performed at all levels and in all areas of FCC. Additionally, IRM provides a framework to identify, assess and take pre-emptive actions to manage risk and exploit opportunities. It allows FCC to enhance our ability to comprehensively identify risks and to include risk assessment in the planning and decision-making processes.

In 2003-04, IRM carried out a comprehensive process that identified and described specific risks to the corporation. Functional areas impacted by this risk were identified, and a rating on the severity of the risk to the corporation and probability of the risk occurring provided a quantitative and qualitative assessment.

Integrated risk management

An organization-wide process that addresses business risks in an integrated fashion, to optimize returns from risk-taking activities.

Objectives of IRM

- Integrate risk management analysis into the strategic planning process.
- Integrate risk management into day-to-day decision-making at all levels of FCC.
- Facilitate the assessment of significant risks identified by management on an ongoing basis and develop processes to manage, measure and report.
- Enhance Board and stakeholder comfort in risk management practices within FCC.

Responsibility for risk management

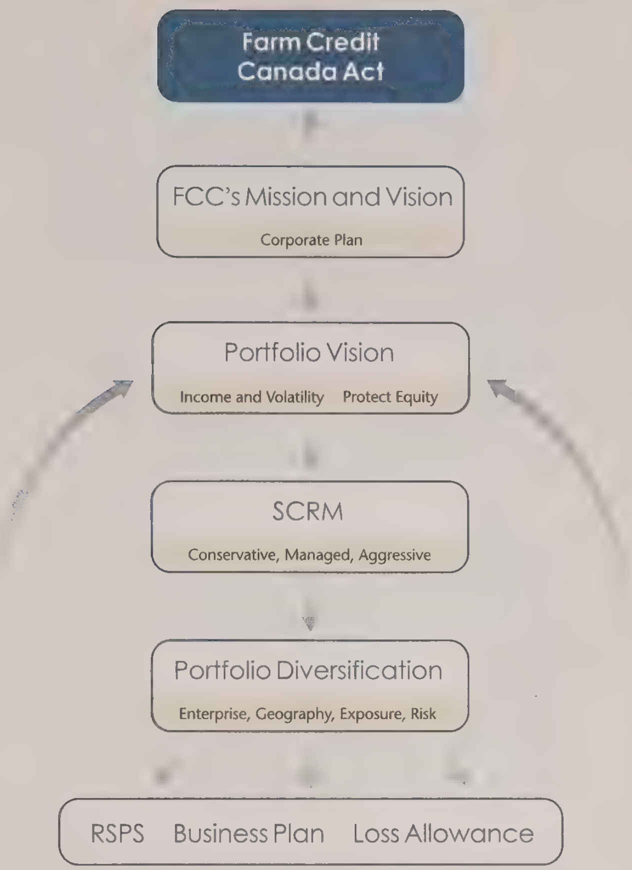
No one division or unit is responsible for managing all the risks FCC faces. Roles are given to divisions and teams with specialized expertise to address various risk matters. Functional areas associated with risk management include the following:

- Field offices are engaged in risk management with staff trained to handle relevant aspects of credit risk and operational risk.
- The Risk Management division manages transactional credit risk. The Credit Policy group reviews and manages lending policies, communicates policy changes to staff, and works to ensure that FCC credit policies maintain an appropriate balance between flexibility and risk mitigation. The Risk Management Centres are responsible for delegation of authorities, credit authorization, customer and loan monitoring policies and processes. Valuation Services staff research land sales, maintain benchmark data on land values, and appraise the value of FCC security with particular emphasis on specialized enterprises and agribusinesses. Special Credit manages and resolves higher risk accounts experiencing challenges.
- The Portfolio Management unit assesses credit risk at the aggregate level. It provides the risk assessment tools and models to quantify credit and default loss allowances. Portfolio Management monitors the agri-food operating environment to ensure FCC lending policies, activities and prices are appropriate and relevant. As well, direction is also provided using the portfolio vision statement approved by the Board and implemented via the Strategic Credit Risk Model (SCRM), portfolio diversification plan, Risk Pricing and Scoring System (RSPS) and the National Operations Business Development Plan.
- The Treasury division is responsible for managing funding operations, as well as mitigating associated risks such as liquidity risk, interest rate risk, foreign exchange risk, basis risk, prepayment risk, commitment risk and credit risk related to derivative instruments. The Asset/Liability Committee (ALCO) oversees Treasury's management of risks at the executive level. The Treasurer reports to the Board on a quarterly basis.
- Administration Services is responsible for managing risks associated with physical facilities, employee safety and security, insurance policies, emergency preparedness and many aspects of business continuity planning.
- The Information Technology division is responsible for managing risks related to computer systems, data integrity, disaster recovery and data services.
- The Corporate Audit division is responsible for assessing compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through an annual operational review of the Treasury functions.
- General Counsel and Chief Privacy Officer is responsible for managing risks associated with changes in legislation, litigation involving FCC, and privacy of customer and employee information.
- Reporting directly to the President's Office, the Integrated Risk Management function offers a comprehensive view of risk across the organization.

Credit risk

Continued improvements of the portfolio vision and portfolio diversification plan added to greater understanding of FCC's quantified credit risk. While FCC's portfolio is concentrated in agriculture, diversification across several agricultural sectors, lines of business and geographic areas reduces credit risk. In order to fulfil our mission to enhance rural Canada by providing business and financial solutions for farm families and agribusiness, and to meet our governing objective of financial success, a balance must be maintained between net income (profitability) and risk (volatility of net income). This relationship is explained in our portfolio vision statement on page 53.

"FCC's vision for the loan portfolio is having it perform at a level sufficient to create the desired level of net income within an acceptable range of volatility. The desired net income will support growth of the portfolio to thereby achieve FCC's mission in a growing agricultural economy."



FCC's Marketing and Portfolio Management division uses the following tools or systems to manage the portfolio. Annually, numeric targets associated with these tools are set to assist in achieving the portfolio vision statement. Significant research, modelling, validation and interpretation support the targets for each tool:

Strategic Credit Risk Model (SCRM) measures the risk in the portfolio groups (concentrations) of loans by lines of business, sectors, geographical areas and customer exposure.

Portfolio Diversification Plan is a process that determines the five-year optimal portfolio composition through a balance of profitability and risk.

Risk Scoring and Pricing System (RSPS) is a behavioural scorecard used as FCC's risk rating system. It is also used to ensure that interest rates for loans are priced correctly to cover cost of funds, risk, operating cost and planned profit.

Loss Allowance refers to the allowance for credit losses created on the balance sheet. It is an important process to measure the result of credit management and to protect FCC equity.

SCRM results confirm managed credit risk for 2003-04

SCRM measures the risk in the portfolio first by totalling individual loans or transaction risk, then overlaying risks for groups (concentrations) of loans by lines of business, sectors, geographical areas and customer exposure. There are three possible score ranges, each corresponding to a credit risk strategy:

- Conservative (maximizes portfolio quality)
- Managed (balances portfolio quality and growth)
- Aggressive (maximizes growth)

The target for FCC is a "managed" credit risk strategy score.

The SCRM in all three risk categories – transaction, intrinsic and concentration – was determined to be moderate, resulting in a managed level of overall strategic credit risk.

These results show steady credit risk exposure over the past five years, indicating that credit risk has been managed successfully.

During the year, the Risk Management division implemented the recommendations of an in-depth review of its core processes. The changes will result in greater efficiency of process and improved risk mitigation techniques. Two examples of initiatives that were completed during the year are a complete rewrite of the Lending Operations Manual in a Web-based format resulting in greater clarity, consistency and efficiency for users, and the introduction of Moody's KMV Financial Analyst as the financial analysis tool for agribusiness lending. This tool brings an increased level of sophistication to the analysis of these more complex types of loan applications.

FCC continued to emphasize environmental risk, ensuring that this risk is properly identified and mitigated. A new position was created to focus exclusively on environmental issues. Training activities were stepped up to ensure that staff are equipped to deal with environmental risk. FCC is working closely with officials from the Canadian Environmental Assessment Agency on recent federal legislation to ensure that the intent of the legislation is realized and environmental concerns are dealt with as effectively as possible.

Portfolio diversification

The agriculture and agri-food system in Canada faced some significant challenges in the past year. FCC is affected by the impacts that external events have on our customers, as the effects of these events often translate into changes in their repayment ability, asset values, and opportunities to grow their businesses.

In order to manage the potential risk in the industry, FCC has developed a Portfolio Diversification Plan. This is a comprehensive plan that determines the five-year optimal portfolio composition through a balance of profitability and risk. It considers projected growth in Canadian agricultural debt, risk-adjusted and cost-adjusted returns by sector, FCC growth trends and market share. The optimal composition is used to drive marketing and sales efforts, and is operationalized through the National Operations Business Development Plan. Options are identified in the Portfolio Diversification Plan that can be implemented if any of the target ranges are exceeded. FCC is currently within the target ranges, and is planning for growth in each sector. Target ranges for the portfolio are established for each of the following:

- diversification across enterprises, geographical areas and business lines;
- market share by enterprise and geographical area;
- large customer exposure limits and approval authorities for large exposure customers; and
- maximum target market share for minor, niche market sectors.

Compliance and operational risk

The Corporate Audit department is responsible for ensuring compliance to all corporate risk management policies and provides regular feedback on a variety of risk management issues. It assists in the management of credit risk through the field audit program, operational risk through the internal control and functional/IT audit programs, and market risk through operational reviews of the Treasury area. Corporate Audit uses the corporate risk assessment from the Integrated Risk Management process in developing an annual audit plan that addresses key risks.

Compliance

FCC employs a Field Operations Audit program to assess risk and performance of business operations at a field level. Together, the Corporate Audit and Risk Management divisions participate in the program, which provides an independent assessment of quality and risk associated with lending operations. The program was established to examine lending activities and provide learning opportunities for employees to improve their performance in the areas of risk assessment and mitigation, compliance to lending policy, data integrity and other quality assurance activities.

The scope of the Field Operations Audit program includes the following key components:

- compliance to lending and corporate policies;
- documentation, financial analysis and risk mitigation;
- internal control activities (office efficiency and physical security); and
- an assessment of lending decisions.

Corporate Audit also has an ongoing program of auditing lending activity carried out through FCC's Alliance business partners.

Operational risk

FCC uses a diverse audit toolkit to assist management in mitigating operational risk. These audits focus on providing management with an independent assessment of corporate business processes, internal controls and risk mitigation strategies. These different audit approaches include:

- IT and security audits;
- internal control audits;
- broad-based functional audits on entire business functions; and
- using technology to develop continuous monitoring routines.

Market risk

The Treasury division manages exposure to market risk within limits developed in consultation with the federal Department of Finance and approved by FCC's Board of Directors. Market risk management policies are approved and regularly reviewed by FCC's Asset/Liability Committee (ALCO) and the Board. The Treasury division is responsible for implementing market risk management directives and reports regularly to ALCO and quarterly to the Board of Directors on its activities and asset/liability positions.

In managing its operations, the Treasury division uses sound policies, processes and core systems consistent with industry best practices and Department of Finance guidelines. Through effective and prudent treasury management, the division mitigates market risk by managing interest rate risk. FCC's policy is to hedge foreign exchange rate risk. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency is used specifically to finance a like currency asset.

Interest rate risk

FCC is exposed to interest rate risk as a result of a mismatch or gap between assets, liabilities and off-balance sheet instruments because of different renewal and/or re-pricing dates. Interest rate risk is the potential impact of changes in interest rates on FCC's earnings and economic value. Exposure to interest rate risk is monitored and managed using an asset/liability model so as to avoid material adverse impacts.

In response to continued growth in variable rate loan assets, the Treasury division maintained a significant hedging strategy designed to reduce the basis risk and stabilize net interest income margin.

Asset/liability management

FCC manages interest rate risk exposures with an asset/liability model. The model simulates changes in net interest income and market value of portfolio equity for parallel and non-parallel changes in the yield curve. Given FCC's financial position at March 31, 2004, an immediate two per cent increase or decrease in interest rates across all maturities would affect net interest income and market value portfolio equity.

$ millions	2% increase	2% decrease
NII variability	+8	-9
Economic value variability (MVPE)	-75	+68

FCC is currently within Board-approved risk management guidelines and policies with respect to exposures to interest rates and foreign exchange risks.

Derivatives

FCC utilizes derivatives for risk management. No derivatives are entered into for speculative purposes. In the normal course of financing the operations of FCC, derivative instruments may be used in combination with a debt instrument to synthetically create floating or fixed rate debt. In addition, derivative instruments may be used to hedge exposures to foreign exchange risk, basis risk, the optionality embedded in FCC's loan products, and the mismatches in the maturities and interest rate characteristics of FCC's assets and liabilities. Such transactions alter the cash flows and risk profile of the assets and liabilities to ensure interest rate risk and foreign exchange risk are managed within Board-approved limits.

Derivative instruments are subject to credit risk arising from the potential for a counterparty to default on its contractual obligation. FCC is not exposed to credit risk for the full notional amount (face value) of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. To mitigate this risk, FCC transacts derivatives only with counterparties of acceptable credit quality, as determined by the published ratings of external credit rating agencies. Standard credit risk mitigation, via netting arrangements provided in the master ISDA documentation, provide for the simultaneous close-out and netting of positions with a counterparty in the event of a default. Credit Support Annex documentation is also in place with several FCC counterparties. These agreements are addendums to existing ISDA documentation and provide for the provision of collateral to FCC in the event that the counterparty credit exposure exceeds an agreed threshold.

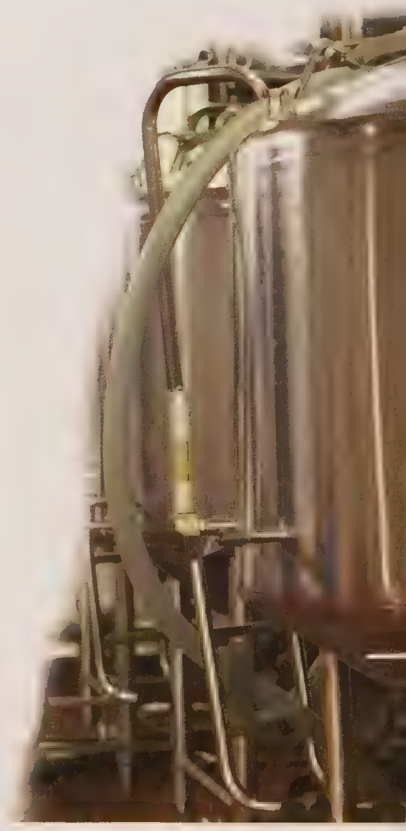
The policies that govern the use of derivatives and establish tolerances for interest rate and counterparty risk are approved by ALCO and the Board of Directors.

Liquidity risk

FCC measures, forecasts and manages cash flow as an integral part of liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

FCC maintains liquidity through:

- a liquid investment portfolio – Cash and marketable securities equal to $478 million were on hand at March 31, 2004 (March 31, 2003 – $404 million). ALCO and the Board of Directors have established an investment policy that sets minimum credit ratings for short and long-term marketable securities and limits the size and composition of the total investment portfolio;
- access to commercial paper markets – FCC's domestic and Euro commercial paper programs provide the corporation with sufficient liquidity to meet daily cash requirements; and
- access to a $10-million bank operating line of credit and a $50-million revolving credit facility.



Significant accounting policies

Allowance for credit losses

The allowance for credit losses adjusts the value of loans receivable to reflect their estimated realizable value. In assessing their estimated realizable value, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These include economic factors, developments affecting customers in particular sectors and specific issues with respect to single borrowers. Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses can be found in the discussion of credit risk on page 52 as well as in Note 2 on page 64 of the financial statements.

Accounting guideline AcG-13 hedging relationships

AcG-13 establishes stringent new criteria that must be met if an entity wishes to use hedge accounting in accordance with Canadian generally accepted accounting principles. FCC is well prepared for this change in accounting requirements that are effective for the fiscal year commencing April 1, 2004. It specifies circumstances in which hedge accounting is permitted and establishes formal documentation requirements with regards to identification, designation and effectiveness testing of hedging relationships. AcG-13 requires that any derivative financial instrument that does not qualify for hedge accounting to be accounted for at fair value, with changes in fair value recognized currently in earnings. Additional information on AcG-13 can be found in Note 2 on page 66 of the financial statements.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits, and the fair value for financial instruments, that are necessarily based on management's best estimates and judgment.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan

John J. Ryan
President and
Chief Executive Officer

Moyez Somani

Moyez Somani
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 14, 2004

Can

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2004 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the bylaws of the corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 14, 2004

Balance Sheet

As at March 31 *(thousands of dollars)*

	2004	2003
Assets		
Cash and cash equivalents	$ 149,409	$ 146,683
Temporary investments (Note 3)	328,823	256,782
Accounts receivable	37,924	83,833
	516,156	487,298
Loans receivable – net (Notes 4 and 5)	9,644,096	8,467,106
Venture capital investments (Note 6)	13,700	2,000
	9,657,796	8,469,106
Real estate acquired in settlement of loans	3,711	3,470
Equipment and leasehold improvements (Note 7)	29,883	26,962
Other assets	6,737	4,325
	40,331	34,757
Total Assets	$ 10,214,283	$ 8,991,161
Liabilities		
Accounts payable and accrued liabilities	$ 31,467	$ 25,554
Accrued interest on borrowings	69,097	75,175
	100,564	100,729
Borrowings (Note 8)		
Short-term debt	2,075,593	1,512,419
Long-term debt	7,064,458	6,494,467
	9,140,051	8,006,886
Other liabilities and deferred fees (Note 9)	25,796	40,775
	9,266,411	8,148,390
Equity		
Capital	507,725	507,725
Retained earnings	440,147	335,046
	947,872	842,771
Total Liabilities and Shareholder's Equity	$ 10,214,283	$ 8,991,161

Guarantees, commitments and contingent liabilities (Note 14). *The accompanying notes are an integral part of the financial statements.*

Approved:

Rosemary Davis

Rosemary Davis
Chair, Board of Directors

Marie-Andrée Mallette
Chair, Audit Committee

For the year ended March 31 *(thousands of dollars)*

	2004	2003
Interest Income		
Loans receivable	$ 603,724	$ 545,354
Investments	13,637	12,814
	617,361	558,168
Interest expense		
Short-term debt	48,952	52,068
Long-term debt	258,744	236,774
Total interest expense	307,696	288,842
Net interest income	309,665	269,326
Provision for credit losses (Note 5)	84,031	67,157
Net interest income after provision for credit losses	225,634	202,169
Other Fees and Income	11,404	13,948
Income before Administration Expenses	237,038	216,117
Administration expenses (Note 10)	131,937	119,284
Net Income	105,101	96,833
Retained earnings, beginning of year	335,046	238,213
Retained Earnings, end of year	$ 440,147	$ 335,046

The accompanying notes are an integral part of the financial statements.

For the year ended March 31 *(thousands of dollars)*

	2004	2003
Operating Activities		
Net income	$ 105,101	$ 96,833
Items not involving cash and cash equivalents:		
Provision for credit losses (Note 5)	84,031	67,157
Amortization of bond premiums/discounts	29,195	39,415
Change in accrued interest receivable	(2,075)	7,189
Change in accrued interest payable	(5,179)	(20,135)
Other	47,695	(10,565)
Cash provided by operating activities	258,768	179,894
Investing Activities		
Loans receivable disbursed	(3,188,100)	(2,854,300)
Loans receivable repaid	1,932,536	1,742,181
Change in temporary investments	(72,041)	(97,244)
Venture capital investments disbursed	(11,700)	(2,000)
Change in real estate held	239	6,640
Other	(21,202)	15,712
Cash used in investing activities	(1,360,268)	(1,189,011)
Financing Activities		
Long-term debt from capital markets	1,452,172	2,812,132
Long-term debt repaid to capital markets	(911,376)	(1,305,262)
Change in short-term debt	563,430	(541,092)
Cash provided by financing activities	1,104,226	965,778
Change in cash and cash equivalents	2,726	(43,339)
Cash and cash equivalents, beginning of year	146,683	190,022
Cash and cash equivalents, end of year	$ 149,409	$ 146,683
Supplemental Information		
Cash interest paid during the year	$ 313,775	$ 310,090

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the *Income Tax Act*.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues Farm Credit Canada with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2004, capital payments received from the Government of Canada amounted to $1,168.3 million (2003 – $1,168.3 million). The statutory limit for that same period was $1,225.0 million (2003 – $1,175.0 million).

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2004, the corporation's total liabilities were 9.8 times the equity of $947.9 million (2003 – 9.7 times the equity of $842.8 million).

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 to 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable are stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the allowance for credit losses.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement of funds to the borrower.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan-by-loan basis. These factors are based on the corporation's historic loan loss experience and are adjusted to reflect current conditions.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions, as well as general economic trends, to allow for credit losses within the portfolio that have not yet manifested themselves as observable deterioration in specific loans. This allowance also covers model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

In accordance with revision to Canadian Institute of Chartered Accountants' Handbook Section 3061, effective May 1, 2003, property acquired from customers to satisfy loan commitments is classified as held for sale and recorded at fair value, less cost to sell. Prior to May 1, 2003, real estate acquired in settlement of loans and held for sale was initially recorded at the lower of the recorded investment in the foreclosed loan and fair value, less cost to sell. Fair value less cost to sell is the amount that could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated costs of realization and any amounts legally required to be paid to the borrower. The impact of this change was not significant.

Net operating costs incurred on real property held for sale are included as a component of other fees and income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other fees and income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost. Interest on debt and dividends on preferred shares are accrued when receivable with dividends on common shares included in income when declared. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. Where there has been a significant and other than temporary decline in value, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses are reported net of the exchange gains and losses from currency exchange agreements. These amounts are included as a component of interest income or expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognized on the balance sheet upon issuance and removed when they expire or are terminated. Amounts due from counterparties are reflected as a component of accounts receivable and amounts due to counterparties are reflected as a component of accounts payable and accrued liabilities. Receipts and payments are accounted for on an accrual basis in the same period and the same category to which the contract is related.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included on the balance sheet in accounts receivable or other liabilities and deferred fees, respectively.

Employee future benefits

Pension and post-retirement benefits

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service that incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors.

For the purpose of calculating the expected return on plan assets, those assets are valued at market value.

Actuarial gains or losses arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10 percent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. According to actuarial estimates, the average remaining service period for employees covered by the defined benefit pension plan is 15 years (2003 – 15 years). The average remaining service period of the active employees covered by the other retirement benefits plan is 22 years (2003 – 22 years).

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Use of estimates

The preparation of the corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments. Actual results could differ from those estimates.

Future accounting changes

The Canadian Institute of Chartered Accountants new accounting requirements for derivative financial instruments apply to the corporation commencing April 1, 2004. The new rules require all derivatives to be marked to market with the change in market values reported in current period income, unless the derivatives meet the new criteria for hedging relationships. Based on its analysis, the corporation believes that all derivatives at March 31, 2004, will meet the criteria for hedging relationships.

The corporation early adopted the disclosure requirements of Canadian Institute of Chartered Accountants Handbook Section 3461 Employee Future Benefits for the fiscal year ended March 31, 2004. Details are in Note 11 and comparative figures have been restated to conform to the new presentation.

3. Temporary investments

(thousands of dollars except %)

		2004		2003
Issued or guaranteed by Canada	$	69,705	$	37,814
Yield		2.06%		3.11%
Other institutions	$	259,118	$	218,968
Yield		2.30%		3.10%
	$	328,823	$	256,782

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1M or higher (2003 – R-1L or higher). As at March 31, 2004, the largest total investment in any one institution was $74.7 million (2003 – $62.0 million).

4. Loans receivable – net

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2004. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(thousands of dollars except %)

2004

		Under 1 year		1 to 5 years		Over 5 years		Total
Floating	$	212,487	$	4,702,611	$	625,548	$	5,540,646
Yield		5.05%		4.87%		4.89%		4.88%
Fixed		722,997		3,072,881		507,577		4,303,455
Yield		7.23%		7.14%		7.85%		7.24%
Performing loans	$	935,484	$	7,775,492	$	1,133,125		9,844,101
Impaired								205,334
Loans receivable – gross								10,049,435
Allowance for credit losses								(405,339)
Loans receivable – net							$	9,644,096

2003

		Under 1 year		1 to 5 years		Over 5 years		Total
Floating	$	128,689	$	3,596,518	$	463,616	$	4,188,823
Yield		5.82%		5.65%		5.67%		5.66%
Fixed		867,845		2,987,779		625,210		4,480,834
Yield		7.11%		7.57%		8.13%		7.56%
Performing loans	$	996,534	$	6,584,297	$	1,088,826		8,669,657
Impaired								142,934
Loans receivable – gross								8,812,591
Allowance for credit losses								(345,485)
Loans receivable – net							$	8,467,106

Management estimates that annually, over the next three years, approximately 7.5% (2003 – approximately 7.5%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2004, $58.0 million (2003 – $34.3 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully hedged at time of issuance.

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. To manage this risk, the corporation maintains a portfolio vision defining an acceptable portfolio composition by sector and geographic area. The portfolio vision is approved by the Board of Directors and at March 31, 2004, all concentrations are consistent with the approved vision. The concentrations of performing loans by sector and geographic area are displayed in the tables below:

Sector distribution

(thousands of dollars except %)

	2004		2003	
Cash Crops	$ 3,253,078	33.0%	$ 2,913,005	33.6%
Dairy	2,297,669	23.3%	1,976,682	22.8%
Beef	922,925	9.4%	866,966	10.0%
Value Added	935,613	9.5%	823,617	9.5%
Hogs	943,477	9.6%	849,626	9.8%
Poultry	746,692	7.6%	650,224	7.5%
Other	744,647	7.6%	589,537	6.8%
Performing loans	$ 9,844,101	100.0%	$ 8,669,657	100.0%

Geographic distribution

(thousands of dollars except %)

	2004		2003	
Western	$ 2,126,953	21.6%	$ 1,794,619	20.7%
Prairie	2,537,981	25.8%	2,236,771	25.8%
Ontario	3,336,600	33.9%	2,904,335	33.5%
Quebec	1,246,619	12.7%	1,170,404	13.5%
Atlantic	595,948	6.0%	563,528	6.5%
Performing loans	$ 9,844,101	100.0%	$ 8,669,657	100.0%

5. Allowance for credit losses

(thousands of dollars)

	2004	2003
Balance, beginning of year	$ 345,485	$ 297,338
Write-offs, net of recoveries	(24,177)	(19,010)
Provision for credit losses	84,031	67,157
Balance, end of year	$ 405,339	$ 345,485
Specific allowance	$ 60,232	$ 47,858
General allocated allowance	305,107	267,627
General unallocated allowance	40,000	30,000
Balance, end of year	$ 405,339	$ 345,485

As at March 31, 2004, the total recorded investment in loans receivable against which a specific allowance has been identified was $205.3 million (2003 – $142.9 million). The general allowances were established against the remaining $9,844.1 million (2003 – $8,669.7 million) investment in loans receivable.

6. Venture capital investments

The corporation's portfolio of venture capital investments is focused on providing financing to small and medium-sized companies in the agriculture industry. As at March 31, 2004 the corporation does not have significant influence in the companies, so the investments are accounted for at cost. The concentrations of venture capital investments are listed below.

(thousands of dollars)

		2004		2003
Value-added food manufacturing and processing	$	3,000	$	–
Development and manufacturing of agricultural equipment		2,200		–
Businesses that support the agricultural sector		2,000		2,000
Ag-biotech		6,500		–
	$	13,700	$	2,000

Investments are normally held for between three to seven years through a variety of instruments. Carrying value by type of investment is as follows:

(thousands of dollars)

		2004		2003
Common shares	$	1,000	$	–
Preferred shares		3,500		1,000
Debentures		9,200		1,000
	$	13,700	$	2,000

7. Equipment and leasehold improvements

(thousands of dollars)

	2004			2003
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	$ 12,544	$ 6,786	$ 5,758	$ 6,077
Computer equipment and software	40,377	23,179	17,198	14,130
Leasehold improvements	14,653	7,726	6,927	6,755
	$ 67,574	$ 37,691	$ 29,883	$ 26,962

Amortization of equipment and leasehold improvements of $8.5 million (2003 – $7.7 million) is included in administration expenses.

8. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling $2,075.6 million (2003 – $1,512.4 million). The effective interest rate on these notes ranges from .95% to 2.72% (2003 – 1.15% to 3.46%) with an average yield to maturity of 2.28% (2003 – 2.95%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 12, 2003, the corporation renewed a revolving credit facility providing access to funds in the amount of

$50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2004, there were no draws on this facility.

The corporation also has a line of credit facility providing access to funds in the amount of $10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. As at March 31, 2004, there were no draws on this line of credit.

Long-term debt

(thousands of dollars)

	2004	2003
Debt from capital markets, secured by notes payable in:		
Canadian dollars	$ 6,278,702	$ 6,007,523
United States dollars ($194.0)	254,004	135,311
Japanese yen (¥41.1 billion)	516,052	319,245
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:		
The Euro Top 100 Index	15,700	32,388
	$ 7,064,458	$ 6,494,467

Debt with index-linked interest payments does not provide periodic interest payments but, upon maturity, provides the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements that offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars. Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate debt instruments and on the fair value of fixed-rate debt instruments.

Long-term debt maturities based on final maturity date are as follows:

(thousands of dollars)

	2004	2003
Amounts due:		
Within 1 year	$ 1,367,311	$ 1,396,229
From 1 – 2 years	1,516,879	1,134,260
From 2 – 3 years	836,718	1,075,576
From 3 – 4 years	596,187	495,131
From 4 – 5 years	488,337	515,288
Over 5 years	2,259,026	1,877,983
	$ 7,064,458	$ 6,494,467

Included in long-term debt are $2,187.9 million (2003 – $1,369.9 million) of instruments extendable beyond their original due dates and $266.8 million (2003 – $632.9 million) of callable debt. The redemption of these debt instruments is controllable by the corporation. At the inception of these debt instruments, derivative swap agreements are entered into concurrently to hedge the embedded interest rate and currency exposure. In practice, the corporation will only redeem the debt instrument if the counterparty exercises its right to terminate the related derivative swap agreement.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's debt instruments by the earlier of first call, extension or final maturity date. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars except %)

	2004		2003	
Remaining term to earliest of first call, extension or final maturity date	**Carrying Value**	**Average Yield**	Carrying Value	Average Yield
Within 1 year	$ 3,755,338	3.05%	$ 3,209,846	3.49%
1 to 5 years	3,254,327	3.49%	3,279,865	4.60%
Over 5 years	117,507	3.74%	73,806	4.00%
	$ 7,127,172	3.26%	$ 6,563,517	4.05%

9. Other liabilities and deferred fees

(thousands of dollars)

		2004		2003
Accrued benefit liability – other benefits	$	17,396	$	15,232
Unrealized foreign exchange		(482)		18,492
Deferred fee revenues		8,200		5,753
Other liabilities		682		1,298
	$	25,796	$	40,775

10. Administration expenses

(thousands of dollars)

		2004		2003
Personnel	$	80,662	$	75,164
Facilities and equipment		19,750		18,585
Professional and other		21,968		15,103
Travel and training		9,557		10,432
	$	131,937	$	119,284

11. Employee future benefits

Description of benefit plans

The corporation has a number of funded defined benefit pension plans, an unfunded defined benefit plan, which includes post-employment and post-retirement benefits, as well as a defined contribution pension plan, that provides pension, other retirement and post-employment benefits to most of its employees. Its defined benefit pension plans are based on years of service and final average salary.

Other retirement benefit plans are contributory health-care plans with employee contributions adjusted annually, and non-contributory life insurance plans. A plan also provides short-term disability and long-term disability income benefits after employment, but before retirement.

Total cash payments

Total cash payments for employee future benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans, and cash contributed to its defined contribution plans, was $7.9 million (2003 – $7.3 million).

Defined benefit plans

The corporation measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the pension plans for funding purposes was as of December 31, 2002. The next required valuation would be as of December 31, 2005.

Defined benefit plan obligations:
(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Accrued benefit obligation				
Balance, beginning of year	$ 127,009	$ 102,722	$ 17,876	$ 15,655
Current service cost	4,939	5,199	1,404	966
Interest cost	9,266	7,813	1,288	1,119
Employee contributions	1,980	2,103	–	–
Benefits paid	(2,648)	(2,311)	(658)	(577)
Actuarial losses	2,915	9,183	3,289	713
Net transfer in*	–	2,300	–	–
Balance, end of year	$ 143,461	$ 127,009	$ 23,199	$ 17,876

Defined benefit plan assets:
(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Fair value of plan assets				
Balance, beginning of year	$ 120,994	$ 113,192	$ –	$ –
Actual return on plan assets	31,460	(193)	–	–
Employer contributions	4,801	5,903	–	–
Employee contributions	1,980	2,103	–	–
Benefits paid	(2,648)	(2,311)	–	–
Net transfer in*	–	2,300	–	–
Balance, end of year	$ 156,587	$ 120,994	$ –	$ –

*As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the Public Service Superannuation Act (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada that provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the remaining amount of the transfer has been recognized on an estimated basis at March 31, 2003.

The percentages of plan assets, based on market values at December 31 are:

Asset Category	2004	2003
Equity securities	62.8 %	56.2 %
Debt securities	36.1 %	37.3 %
Other	1.1 %	6.5 %
	100.0 %	100.0 %

Reconciliation of the funded status of the benefit plans to the amounts recorded in the financial statements:

(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Fair value of plan assets	$ 156,587	$ 120,994	$ –	$ –
Accrued benefit obligation	143,461	127,009	23,199	17,876
Funded status of plans – surplus (deficit)	13,126	(6,015)	(23,199)	(17,876)
Unamortized net actuarial (gain) loss	(13,102)	6,979	5,803	2,644
Employer contributions after December 31	2,453	769	–	–
Accrued benefit asset (liability)	$ 2,477	$ 1,733	$ (17,396)	$ (15,232)

The accrued benefit asset (liability), is included in the corporation's balance sheet as follows:
(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Other assets	$ 2,477	$ 1,733	$ –	$ –
Other liabilities and deferred fees	–	–	(17,396)	(15,232)
	$ 2,477	$ 1,733	$ (17,396)	$ (15,232)

Plans with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:
(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Accrued benefit obligation	$ 1,816	$ 4,883	$ 23,199	$ 17,876
Fair value of plan assets	–	3,069	–	–
Funded status – plan deficit	$ (1,816)	$ (1,814)	$ (23,199)	$ (17,876)

Elements of defined benefit costs recognized in the year:
(thousands of dollars)

	2004 Pension benefits	2003 Pension benefits	2004 Other benefits	2003 Other benefits
Current service cost	$ 4,939	$ 5,199	$ 1,404	$ 966
Interest cost	9,266	7,813	1,288	1,119
Actual return on plan assets	(31,460)	193	–	–
Actuarial losses	2,915	9,183	3,289	713
Net cost (income) before adjustments	(14,340)	22,388	5,981	2,798
Adjustments to recognize long-term nature of employee future benefit costs:				
Difference between expected return and actual return on plans assets for the year	22,969 a	(9,557) a	–	–
Difference between actuarial (gain) loss recognized for year and actual actuarial (gain) loss on accrued benefit obligation for year	(2,887) b	(9,183) b	(3,157) c	(961) c
Defined benefit costs recognized	$ 5,742	$ 3,648	$ 2,824	$ 1,837

(a) Expected return on plan assets of $(8,491) (2003 – $(9,364)) less the actual return on plan assets of $(31,460) (2003 – $193) = $22,969 (2003 – $(9,557)).

(b) Actuarial (gain) loss recognized for year of $28 (2003 – $nil) less actual actuarial (gain) loss on accrued benefit obligation for year of $(2,915) (2003 – $9,183) = $(2,887) (2003 – $(9,183)).

(c) Actuarial (gain) loss recognized for year of $132 (2003 – $(248)) less actual actuarial (gain) loss on accrued benefit obligation for year of $3,289 (2003 – $713) = $(3,157) (2003 – $(961)).

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2004 **Pension benefits**	2003 Pension benefits	**2004** **Other benefits***	2003 Other benefits*
Accrued benefit obligation as of December 31:				
Discount rate	**6.50 %**	7.00 %	**6.50/5.25 %**	7.00/5.75 %
Rate of compensation increase	**3.50 %**	4.00 %	**4.00/4.00 %**	4.00/4.00 %
Benefit costs for years ended December 31:				
Discount rate	**6.50 %**	7.00 %	**7.00/5.75 %**	7.00/6.25 %
Expected long-term rate of return on plan assets	**6.50 %**	7.00 %	**– %**	– %
Rate of compensation increase	**3.50 %**	4.00 %	**4.00/4.00 %**	4.00/4.00 %

*Percentages reflect post-retirement benefits/post-employment benefits respectively.

Assumed health-care cost trend rates at December 31:

	2004	**2003**
Hospital:		
Initial health-care cost trend rate	8.00 %	9.00 %
Cost trend rate declines to	Nil %	Nil %
Year that the rate reaches the rate it is assumed to remain at	2013	2013
Prescription drugs:		
Initial health-care cost trend rate	10.33 %	11.00 %
Cost trend rate declines to	5.00 %	5.00 %
Year that the rate reaches the rate it is assumed to remain at	2013	2013
Other health-care costs:		
Per annum increase	4.00 %	4.00 %

Sensitivity analysis

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage-point change in assumed health-care cost trend rates would have the following effects for 2004:

(thousands of dollars)		Increase		Decrease
Total of service and interest cost	$	414	$	(299)
Accrued benefit obligation	$	3,433	$	(2,543)

Defined contribution plan

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. For the year ended March 31, 2004, the expense was $1.2 million (2003 – $1.6 million).

12. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are more detailed descriptions of some of the more prominent derivative instruments utilized by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. The exchange of payments is recorded as an adjustment to interest income or expense on the related loan or debt instrument. The related amount payable to or receivable from the counterparty to the agreement is included as an adjustment to accrued interest.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Currency swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Notional principal amounts outstanding at March 31, 2004, for the various derivative financial instruments are:

(thousands of dollars) Remaining term to earliest of first call, extension or final maturity date		**Within 1 year**	**1 to 5 years**	**Over 5 years**	**2004**	**2003**
Interest rate contracts:						
Swap contracts						
Receive	*Pay*					
Floating	Fixed	$ 93,000	$ 227,000	$ –	$ 320,000	$ 346,000
Fixed	Floating	7,697,692	1,485,257	55,000	9,237,949	6,900,720
Floating	Floating	–	–	–	–	20,257
Equity index-linked	Floating	–	15,700	–	15,700	32,388
		7,790,692	1,727,957	55,000	9,573,649	7,299,365
Foreign exchange contracts:						
Cross-currency swaps						
Receive	*Pay*					
CDN fixed	USD fixed	–	–	–	–	1,188
Total		$ 7,790,692	$ 1,727,957	$ 55,000	$ 9,573,649	$ 7,300,553

The counterparty credit risk associated with derivatives is the risk of loss due to the failure of a counterparty to discharge its obligations in a derivative financial instrument agreement. The counterparty obligation may arise when currency and interest differentials occur resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative instruments.

The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk is managed via the corporation's board approved Counterparty Risk Guidelines, which specifies the maximum exposure that the corporation will accept for each level of credit rating. Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes are being executed with derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

Counterparty credit risk is represented by replacement cost, which is the cost of replacing all derivative contracts that have a positive fair value. Net fair value represents the total of positive and negative fair values of all derivative financial instruments. Fair values are determined using present value techniques and quoted market values. The net fair values and replacement costs of the derivative instruments are as follows:

(thousands of dollars)

	2004		2003	
	Net Fair Value	Replacement Cost	Net Fair Value	Replacement Cost
Interest rate contracts	$ 47,820	$ 91,900	$ 2,559	$ 47,039
Foreign currency contracts	–	–	(58)	–
	$ 47,820	$ 91,900	$ 2,501	$ 47,039

The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2004 was $3,103.5 million (2003– $2,591.7 million) and the largest net fair value of contracts with any institution as at March 31, 2004, was $18.0 million (2003 – $16.5 million).

Amounts due from counterparties included in accounts receivable at March 31, 2004 were $17.9 million (2003 – $21.1 million). Amounts due to counterparties included in accounts payable and accrued liabilities at March 31, 2004 were $4.4 million (2003 – $3.3 million).

13. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date.

(thousands of dollars)

	2004		2003	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	$ 149,409	$ 149,409	$ 146,683	$ 146,683
Temporary investments	328,823	328,823	256,782	256,782
Accounts receivable	37,924	37,924	83,833	83,833
Loans receivable	9,644,096	9,836,179	8,467,106	8,616,053
Venture capital investments	13,700	13,700	2,000	2,000
Other assets	6,737	6,737	4,325	4,325
Liabilities				
Accounts payable and accrued liabilities	$ 31,467	$ 31,467	$ 25,554	$ 25,554
Accrued interest on borrowings	69,097	69,097	75,175	75,175
Short-term debt	2,075,593	2,075,593	1,512,419	1,512,419
Long-term debt	7,064,457	7,164,180	6,494,467	6,566,439

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investment in debt is valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts that may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value, which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

14. Guarantees, commitments and contingent liabilities

Guarantees

In the normal course of its business, the corporation issues guarantees and letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable at March 31, 2004 is $17.9 million (2003 – $17.0 million). In the event of a call on these items, the corporation has recourse against its customers for amounts to be paid to the third party. Existing items will expire within two years usually without being drawn upon. No amount has been included in the balance sheet as at March 31, 2004 or March 31, 2003 for these guarantees and letters of credit.

Long-term commitments

Future minimum payments by fiscal year on technology services, operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)		
Within 1 year	$	11,775
From 1 – 2 years		10,816
From 2 – 3 years		9,621
From 3 – 4 years		8,368
From 4 – 5 years		3,935
Over 5 years		8,744
	$	53,259

Loan commitments

As at March 31, 2004, loans to farmers and agribusiness approved but undisbursed amounted to $375.9 million (2003 – $275.0 million). These loans were approved at an average interest rate of 5.04% (2003 – 6.23%) and do not form part of the loans receivable balance until disbursed. In addition, the corporation approved but did not disburse $3.0 million (2003 – nil) in venture capital loans. It is expected that the majority of these loans will be disbursed by May 30, 2004.

Contingent liabilities

The corporation, in the normal course of operations, enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements. The indemnification, in certain circumstances, may require the corporation to compensate the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers, and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary; thus the corporation is unable to determine a reasonable estimate of the maximum potential amount the corporation could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications. No amount has been included in the balance sheet as at March 31, 2004 or March 31, 2003 for these indemnifications.

The corporation's contingent liabilities include creditor life and accident insurance policies, which are sold to customers under the AgriAssurances program. The corporation is exposed to risk to the extent that claims may exceed premiums collected. The program is administered by a major insurance provider and is based on premiums that are actuarially sound. Risk exposure is further mitigated by a claims fluctuation reserve. Historically, premiums have significantly exceeded claims.

15. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

16. Segmented information

The corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10 per cent of the corporation's receivables or interest revenues.

17. Comparative figures

Certain 2003 comparative figures have been restated to conform to the current year's presentation.

Senior Management Team

Front: Corinna Mitchell-Beaudin, Moyez Somani
From left to right, sitting: Paul MacDonald, Lyndon Carlson, Kellie Garrett, Ross Topp, Greg Stewart, Greg Honey
From left to right, standing: Janet Wightman, John J. Ryan, Don Stevens, Rick Hoffman, André Tétreault

The leadership and integrity of FCC's Senior Management Team (SMT) ensure that FCC continues to improve the customer experience, contributes to Canadian agriculture and fosters a high-performance workplace culture.

SMT has significant input into long-term planning for the corporation, in collaboration with the Board of Directors and utilizing the expertise of employees. Following approval of the corporate strategic direction by the Board, SMT designs and executes the business strategy.

At FCC, we believe that leadership occurs at all levels and SMT inspires employees to participate, learn, innovate and excel. Members of SMT exemplify leadership, continually honing their competencies in this area through professional development, evaluation and feedback.

SMT has undertaken extensive work in the areas of high-performance teamwork, accountability and partnership, to ensure that FCC's stellar track record is sustainable.

FCC follows the guidelines of Canada's *Financial Administration Act*, exercising care in decision-making and business activities. The corporate Employee Code of Conduct and Ethics Policy reflect the highest ethical standards of business, professional and personal conduct. SMT adheres to these high standards, which evolved in 2003-04 to include FCC's new cultural practices, and champions them throughout the corporation.

All executives, with the exception of the President and Chief Executive Officer, are paid within salary ranges and compensation policies set by corporate policy and approved by the Board of Directors. The Governor in Council sets the President and CEO's salary and benefits. All executives receive a variable remuneration component linked to the performance of the corporation, the business unit and the individual. In 2003-04, the salary range for the President and CEO was set at $234,600 to $276,000. The salary range for Executive Vice-Presidents was set at $160,790 to $290,375. The salary range for Vice-Presidents is $108,660 to $215,225. Total compensation paid to SMT was $3,045,938.

Senior Management Team

Profiles

John J. Ryan, BBA
President and Chief Executive Officer

Responsible for the strategic leadership of Farm Credit Canada (FCC), John Ryan joined FCC as President and Chief Executive Officer in 1997. John has been instrumental in creating a high-performance culture at FCC. The corporation's customer loyalty, lending portfolio and market share have increased significantly under his leadership.

Prior to joining FCC, John was Chief Operating Officer at the Business Development Bank of Canada (BDC). He is a graduate of Harvard Business School's Advanced Management Program and holds a Bachelor of Business Administration from St. Francis Xavier University.

John was recently chosen by the International Association of Business Communicators as the 2004 EXCEL Award winner. This global award is given annually to a CEO who champions effective communication throughout an organization. John also received the 2003 Leon Leadership Award from the federal government's Commissioner of Official Languages, in recognition of FCC's commitment to bilingualism.

Deeply committed to community involvement, John chairs the Hospitals of Regina Foundation and serves on the Board of Directors for Regina's Adult Learning Centre. He is a member of the Board of Directors for the 2005 Canada Summer Games and the Board of Trustees for the Canadian Athletic Foundation. John has chaired several Regina United Way campaigns and led the CEO challenge for Habitat for Humanity. In 2002, John received the Queen's Golden Jubilee medal in recognition of his significant contributions to the people of Canada.

Moyez Somani, MBA, CMA
EVP & Chief Financial Officer

In providing overall leadership for the corporation's financial function, Moyez is responsible for Treasury, the Controller's Group, Risk Management and Audit and Process Innovation. Moyez joined FCC in 1998, after serving as VP of Investments for the Saskatchewan Opportunities Corporation (SOCO), a provincial agency providing venture capital financing. He has many years of experience in the financial services sector.

Moyez has an MBA from Athabasca University and is a Certified Management Accountant (CMA).

Moyez is a provincial council member for CMA Saskatchewan and a member of the Investment Review Committee for the Agri-Food Equity Fund. Until recently, he served on the boards of the Saskatchewan Science Centre and Financial Executives International. Moyez and his family also devote time to helping newly arrived families settle in the community.

Janet Wightman*
EVP & Chief Operating Officer

As Chief Operating Officer, Janet was responsible for all aspects of FCC's national operations. Janet joined FCC in 1994 and served in Human Resources before moving to the operations side of the corporation in 1999. She is also a member of the SaskPower Board of Directors.

**Janet Wightman resigned from FCC in April 2004.*

Lyndon Carlson, BSA, P.Ag.

VP, Marketing and Portfolio Management

Lyndon is responsible for monitoring the quality and health of all loans within FCC's $10-billion portfolio. He oversees market research and the development of new products at FCC, as well as the corporation's marketing and customer relationship initiatives.

Lyndon joined FCC in 1982. He has served in a diverse range of positions over the past two decades including: Account Manager, Loan Administration Officer, Communications Officer, Manager of BPR, District Manager, AVP Agribusiness West and AVP Business Services.

A professional agrologist, Lyndon holds a Bachelor of Science in Agriculture from the University of Saskatchewan. Lyndon has served on the executive of the Saskatchewan Institute of Agrologists, and is an active volunteer for the Lutheran church and the United Way.

Kellie Garrett, BA, ABC

VP, Strategy, Knowledge & Communication

Kellie is responsible for Corporate Strategy, Government Relations, Knowledge Management, Corporate Communication, Brand Management, Official Languages and Translation and the Corporate Project Management Office (PMO). She joined FCC in 1993 as a Communications Officer and later served as Assistant VP and VP of Communications, and as the VP of Marketing.

Prior to joining FCC, Kellie worked in Toronto as a public relations professional in health care. An Accredited Business Communicator (ABC), Kellie earned a Bachelor of Arts from Carleton University in 1982. She is currently pursuing a Masters of Arts in Leadership & Training at Royal Roads University.

Kellie is active on several boards, including the MacKenzie Art Gallery and the International Association of Business Communicators (IABC). She is a regular speaker at Conference Board of Canada and IABC events, on topics from brand to leadership and strategy. Kellie is also a lay counsellor to parents of autistic children.

Rick Hoffman, CMA

VP & Controller

Rick is responsible for Corporate Accounting, Financial Management and Corporate Reporting, Portfolio Accounting and Systems Support, and the Loan Administration Centres. He joined FCC in 2000 as VP & Controller. Rick has more than 17 years of financial and management experience in the agriculture sector and has served in various positions outside FCC as a Controller and a Director. Rick is a member and sits on the Accreditation Committee of the Certified Management Accountants (CMA) of Saskatchewan. He is also a member of Financial Executives International and is active in the community coaching youth hockey.

Greg Honey, B.Ed.

VP, HR & Administration

Greg joined FCC in November 2000, assuming leadership for all aspects of the Human Resource and Administrative Services functions. He has more than 20 years of human resources experience in organizations such as Wascana Energy/Canadian Occidental Petroleum, Kalium Canada Limited and the Workers' Compensation Board of Saskatchewan.

Greg earned a Bachelor of Education from the University of Regina. He is currently a member of the Canadian Human Resource Planners and serves on the Conference Board of Canada Human Resource Executive Council. Greg serves on the boards of the Regina Big Brother Association, Big Brothers of Canada and the United Way of Regina. In addition, he devotes time to being a hockey coach and volunteer in the community.

Paul MacDonald, MA, B.Sc.

VP, Alliances and Business Services

Leading the development of new services and business channels, Paul is responsible for Alliances, the FCC Customer Service Centre, Business Services and e-Business. Paul joined FCC in October 2001. Prior to that, he was a VP at Ipsos-Reid. Paul has a MA (Economics) from Queen's University and a B.Sc. from the University of P.E.I. In 2003, he served as the Leadership Chair for FCC's United Way campaign.

Corinna Mitchell-Beaudin, B.Admin, CA, CFA

VP & Treasurer

Corinna's responsibilities include funding the operating and investing activities of FCC, as well as asset and liability management, cash and liquidity management, transfer pricing and market risk management. She joined FCC in 2001 as a Manager in the Treasury Division. Prior to that, Corinna was with the Crown Investments Corporation of Saskatchewan and the Office of the Provincial Auditor of Saskatchewan.

A Chartered Accountant (CA) and Chartered Financial Analyst (CFA) Charterholder, Corinna has a Bachelor of Administration from the University of Regina. She is currently the Vice-President of Programming for the Regina chapter of the Treasury Management Association of Canada and serves on the City of Regina Pension Investment Board. In addition, she is a member of the Professional Conduct Committee of the Institute of Chartered Accountants of Saskatchewan. Corinna also devoted her time to assist with the 2003 Grey Cup Festival in Regina.

Don Stevens, MBA, P.Eng., CFA

VP, Information Technology

Responsible for FCC's information technology division, Don has been with FCC since 1992. In addition to IT, Don has served as a manager, assistant VP and a VP in the Treasury Division, and as a VP in the Controller's Division.

Prior to joining FCC, Don was an engineer with Bell Canada and a Financial Analyst with the Royal Bank. A Chartered Financial Analyst (CFA) Charterholder, Don holds a Bachelor of Engineering from Carleton and an MBA from York University. Don is a supporter of the Autism Resource Centre, serving on the board.

Greg Stewart, B.Sc., P.Ag.

Senior VP, National Lending Operations

Greg is responsible for overseeing FCC's lending operations out of approximately 100 offices across Canada. He has extensive experience in operations, farm financing, agribusiness and risk management. Greg joined FCC in 1988 as a Credit Adviser and progressed into a number of senior positions, including VP, Risk Management and VP, Western Operations and Agribusiness.

Prior to joining FCC, Greg was a partner in an Edmonton-based construction firm. A professional agrologist, he holds a B.Sc. from the University of Manitoba. His community interests include the United Way.

André Tétreault, CGA

VP, Risk Management

In addition to overseeing all facets of lending credit risk facing FCC, André is responsible for credit and lending policy, credit risk training and Valuation Services. He is also responsible for Special Credit at FCC, which manages accounts experiencing challenges. André joined FCC in 1996 and has served as VP, Operations East; VP, Audit and BPR; and AVP, Corporate Audit.

André has 26 years of experience in accounting and audit with several federal Crown corporations, including CMHC. He is a Certified General Accountant (CGA) and a graduate of the École des hautes études commerciales in Montreal.

André also serves as a school board trustee in Regina and is active in the United Way, the francophone community and his local community association.

Ross Topp, B.Comm, CA

VP, Audit & Process Innovation

Responsible for internal audit, measurement and control, and process innovation, Ross has been with FCC since October 1994. He assumed his current role in January 2004 after serving in a range of other positions within the corporation, including AVP Business Services, Director of e-Business, Director of Business Process Reengineering and Director of Financial Management and Corporate Reporting. Prior to joining FCC, Ross served as a manager at KPMG. A member of the Chartered Accountants of Saskatchewan, Ross earned a Bachelor of Commerce degree from the University of Saskatchewan.

Corporate Governance

From left to right, back row: Donna Graham, Jack Christie, Russel Marcoux, Don Haliburton, Maurice Kraut, Warren Ellis, Joan Meyer
Front row: Marie-Andrée Mallette, John J. Ryan, Rosemary Davis, Germain Simard, Deborah Whale

In recent years, public confidence in corporations and their senior officers has been eroded by a number of high-profile scandals. People have come to demand greater accountability from both public and private organizations. As a result, new policies have been developed outlining best practices in the securities industry and companies throughout the world have been re-evaluating their corporate governance practices.

FCC has embraced this challenge and strives to ensure that its corporate governance and reporting practices are consistent with best practices.

FCC has drawn upon guidelines published by Treasury Board including, the *Corporate Governance Guidelines in Crown Corporations and Other Public Enterprises*, and the new *Guidelines for Audit Committees in Crown Corporations and Other Public Enterprises*. In addition, industry best practices have been adapted to recognize FCC's unique corporate structure and the reporting requirements set out in FCC's governing legislation, the *Farm Credit Canada Act* and the *Financial Administration Act*.

FCC's Board of Directors recognizes that effective corporate governance is a continuous process and is committed to conducting regular reviews of governance practices to ensure a high level of accountability.

Board mandate

The Board is responsible for overseeing FCC's management and performance in the best interests of the corporation, Canadians and the Government of Canada.

The roles and responsibilities of the Chair, Board members, the CEO and all Board committees are set out in written profiles and charters. The Board is currently finalizing a new Charter and a related set of Board Governance Guidelines. These documents will encompass seven major themes:

- Integrity – Legal and Ethical Conduct
- Strategic Planning
- Financial Reporting and Public Disclosure
- Risk Management and Internal Controls
- Leadership Development and Succession Planning
- Corporate Governance
- Director Orientation, Continuing Education and Evaluation

Independence:

With the exception of the CEO, all Board members are independent of management. FCC's two Executive Vice-Presidents attend every Board meeting. Two other members of the senior management team attend on a rotating basis. The Board enjoys open and candid communication with management but also ensures independence by holding a private session – without management present – at every Board meeting.

Public policy role:

As a federal Crown corporation, FCC serves a public policy role. Our mission is to enhance rural Canada by providing business and financial solutions to farm families and agribusiness. We fulfil this mission by offering products and services to meet the needs of the industry, operating on a financially self-sustaining basis and supporting agriculture through good times and bad.

The Board ensures that public policy is considered in decisions on strategic initiatives, including the portfolio vision, long-term employee incentives and the development of new products and services to help the industry succeed.

Integrity, Code of business conduct and ethics:

All Board members are subject to the Board's policy governing loans where a director has a material interest and conflict of interest rules provided in the *Financial Administration Act* and the Conflict of Interest Code for Public Office Holders.

FCC's Code of Conduct and Ethics applies to all staff. The Board of Directors is currently overseeing the updating of the Code of Conduct, which will be binding on Directors as well.

This Code provides clear direction and expectations. Every employee receives a copy of the Code upon joining FCC and is required to sign a *Declaration and Promise of Fidelity and Security* every 18 months. This declaration confirms the employee's understanding of FCC's policy on employee conduct and ethics.

The Code prescribes the responsibility of employees to deal with customers and colleagues honestly and with integrity and provides guidance respecting employee and client privacy and rules on payments, gifts and entertainment. It also requires employees to act in a socially responsible, non-discriminatory manner.

Finally, the Code of Conduct and Ethics outlines how employees are to disclose outside business interests. This ensures there are no conflicts of interest, whether real or perceived, particularly for those employees who farm and may apply for a loan from FCC.

Strategic planning:

The Board sets the strategic direction of the corporation in consultation with management. The Board regularly examines FCC's business objectives. The Board is responsible for approving FCC's corporate plan and annual report, as well as setting the annual goals and objectives of the CEO. The objectives of the CEO also serve as the annual objectives for the corporation as a whole and are used to hold management accountable for the results of the corporation.

The Board participates in an annual strategic planning session with senior management, and discusses particular initiatives during regular Board meetings. All of FCC's strategies include measurable targets to help gauge performance.

Last year, the Board worked with management on a number of significant new strategic initiatives. These included:

- outsourcing of FCC's information technology infrastructure;
- integration of FCC's major loan origination, loan administration and loan accounting software;
- enhancement of FCC's leadership and employee engagement; and
- the development of targeted new products and services for FCC's customers.

Integrated risk management

The corporation's framework for Integrated Risk Management was prepared after consultations with Treasury Board, the Office of the Auditor General (OAG) and by reviewing the practices of other organizations.

The framework deals with all types of risk: inherent or theoretical risk, residual risk, credit and market risks and operational and business risks.

Senior management has primary responsibility for identifying risks and designing and implementing solutions to mitigate them.

The Board, however, needs to be assured that risks are being managed and that appropriate authorities and controls are in place.

In the past, the Office of the Auditor General has reported that there has been a lack of understanding and communication of Integrated Risk Management (IRM) outside of the management group. The OAG has also recommended that FCC better identify threats and opportunities, define risk tolerance levels and measurements of risks, and report regularly to the Board on IRM.

Management is taking action to improve integrated risk management by undertaking an annual process that encourages staff to better understand IRM and to identify and prioritize key risks.

This information flows through the Audit Committee to the full Board of Directors. Prioritized risks are made available to the Board of Directors and senior management for consideration during strategic planning in August and September each year.

Succession planning

Each year, the Board reviews the corporation's succession plans for key positions, and through the Human Resources Committee, also reviews leadership development initiatives.

Succession planning ensures there is continuity throughout the organization over the long term. The review identifies employees who are ready to take over a particular position and those who might be developed over time.

The Committee encourages management to identify as many people as possible for advancement to ensure a breadth and depth of experience and expertise. This allows for a progression through the executive level, supplemented by outside experience when necessary.

Integrity of internal controls and management information systems

The Board is committed to financial transparency, and has worked closely with the Office of the Auditor General to ensure the integrity of FCC's internal controls and management information systems.

Each year, the Board reviews lending targets for the next fiscal year, FCC's national business plan and portfolio vision.

FCC's treasury operations are key to the corporation's overall success. The Board reviews the operations of treasury at each meeting and regularly reviews and updates, as necessary, policies and limits.

Credit risk is the single largest risk that the corporation faces. The Board oversees the corporation's analysis and reporting of overall credit risk and the performance of FCC's loan portfolio.

Finally, the Board oversees the annual audit plan. This includes the audit of the financial statements of the corporation by the Auditor General of Canada and the annual audit workplan carried out by the corporation's internal audit division.

Orientation and continuing education

Upon appointment to the Board, each member receives a detailed orientation and meets with senior management to learn about the business. Board members also have direct access to the senior management team for ongoing education.

To stay current on key issues and trends, Board members receive training relevant to their governance responsibilities. Last year, the Board participated in a session on financial statements and a number of members attended a session on corporate governance sponsored by the Privy Council Office and Treasury Board.

Members serve rotating terms on Board committees, building their depth of knowledge over time. The Board encourages members to attend committee meetings outside of their particular assignments to gain a better understanding of the issues and challenges facing the corporation.

Nomination of directors

The Board of Directors is composed of 12 members, including the Chair, President and Chief Executive Officer, and 10 Directors.

The Governor-in-Council appoints the Chair and the President and Chief Executive Officer. The Minister of Agriculture and Agri-Food Canada appoints all other Directors with Governor-in-Council approval. Directors serve three-year terms and may be re-appointed.

A number of our members are successful primary producers and agribusiness operators from rural and small urban centres. Approved Chair and Director profiles set out desired qualifications and experience. These profiles help the government evaluate new candidates and assist in succession planning.

The Board has an annual, structured process of self-evaluation. With the help of outside counsel, the Board identifies areas for improvement in their overall skill set, as well as changes that may be required in an effort to achieve governance best practices.

This fiscal year, the Board identified a need for more knowledge and expertise on accounting and finance. The Minister responsible for FCC was asked to consider this desired skill set when making new appointments. This resulted in the appointment of Don Haliburton and Jack Christie. Both possess the Chartered Accountant designation, as well as agriculture- related experience.

Board remuneration

Directors are paid an annual retainer and per diem. Amounts are set by the Governor-in-Council pursuant to the *Financial Administration Act*, on the recommendation of the Minister of Agriculture and Agri-Food Canada.

The Privy Council establishes remuneration levels for Governor-in-Council appointees to Crown boards and agencies. The rates were last approved on April 5, 2001.

- The Chair of the Board receives an annual retainer of $10,800 and a per diem of $420 for meetings attended.
- Committee Chairs receive an annual retainer of $6,400 and a per diem of $375 for meetings attended. All other Board members receive an annual retainer of $5,400 and a per diem of $375 for meetings attended.
- Directors are also reimbursed for all reasonable out-of-pocket expenses including travel, accommodation and meals while performing their duties.

During 2003-04, there were six board meetings and 16 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $178,013, compared to $180,653 in 2002-03. Total Board travel and related expenses was $176,913, compared to $178,675 in 2002-03. The 2003-04 amounts include per diems and travel expenses for seven Board members who attended training on corporate governance.

New appointments:

Don Haliburton, from Vancouver, British Columbia, was appointed as a Director on November 4, 2003, replacing Rashpal Dhillon who passed away suddenly in 2003. Deborah Whale from Alma, Ontario and Jack Christie from Miramichi, New Brunswick joined the Board on November 4 and November 27 respectively. They replaced Eleanor Hart and Robert Colpitts, whose terms had expired.

2003-2004 Board remuneration, expenses and attendance

Director	Board retainer (A)	Per diems (B)	Total remunerations (A&B)[1]	Committee meeting attendance[2]	Board meeting attendance[3]	Board travel and related expenses
Jack Christie[4]	1,800	5,250	7,050	4/4	3/3	8,026
Robert Colpitts[4]	3,600	6,000	9,600	5/5	3/3	15,055
Rosemary Davis	10,800	10,500	21,300	16/16	6/6	15,915
Warren Ellis	6,400	9,750	16,150	5/5	6/6	27,634
Donna Graham	5,400	11,250	16,650	11/11	6/6	15,075
Don Haliburton[6]	1,800	3,750	5,550	4/4	2/3	3,809
Eleanor Hart[5]	3,600	6,750	10,350	3/3	3/3	5,274
Maurice Kraut	5,400	13,875	19,275	6/6	6/6	12,807
Marie Andrée Mallette	6,400	11,250	17,650	11/11	6/6	25,463
Russel Marcoux	5,400	7,500	12,900	5/6	5/6	9,733
Joan Meyer	6,400	10,875	17,275	7/7	6/6	7,546
Germain Simard	5,400	10,875	16,275	8/8	6/6	25,767
Deborah Whale[5]	1,800	6,188	7,988	4/4	3/3	4,809
Total	**$64,200**	**$113,813**	**$178,013**			**$176,913**

1) Column A (Board retainer) and column B (Per diems) 2) There were six Audit, five Human Resources and five Corporate Governance Committee meetings 3) There were six Board meetings 4) Robert Colpitts' term expired and Jack Christie's term began on November 27, 2003 5) Eleanor Hart's term expired and Deborah Whale's term began on November 4, 2003 6) Don Haliburton's term began on November 4, 2003

Audit Committee

Chair: Marie-Andrée Mallette
Members: Rosemary Davis *(Board Chair)*, Donna Graham, Maurice Kraut, Germain Simard, Don Haliburton, Jack Christie

The Audit Committee is composed entirely of Directors who are independent of management.

The Audit Committee oversees FCC's financial performance, ensures that effective financial reporting, control systems, integrated risk management processes and audit functions are in place. Recommendations of the Audit Committee are brought to the Board as required. This Committee, at its discretion, meets independently with representatives of the Office of the Auditor General and FCC's internal auditors.

During the 2003-04 fiscal year, the Audit Committee:

- approved the 2002-03 Financial Statements, 2002-03 Annual Report and quarterly financial results for fiscal year 2003-04;
- approved the 2003-04 corporate audit workplan and received regular reports from corporate audit throughout the fiscal year regarding the results of the various audits;
- approved Board and CEO expense reports for fiscal 2003-04; and
- reviewed the annual audit report and management letter from the Auditor General of Canada for fiscal 2002-03 as well as the plan for the 2003-04 annual audit.

Human Resources Committee

Chair: Warren Ellis
Members: Rosemary Davis *(Board Chair)*, John J. Ryan *(CEO)*, Donna Graham, Joan Meyer, Russel Marcoux, Don Haliburton, Deborah Whale

This committee reviews all major human resources policy matters.

During this fiscal year, the committee:

- received and approved the CEO's objectives for 2003-04 and evaluated his performance for 2002-03;
- examined FCC's compensation policies and established an annual salary review policy for employees;
- reviewed the 2003 Hewitt employee engagement survey, which resulted in FCC being named one of the top 50 employers in Canada;
- monitored the implementation of FCC's Solstice pension program, including the performance of the investment fund managers;
- completed an annual business continuity plan by identifying key organizational positions and succession plans for these positions; and
- re-evaluated a number of employee incentive programs.

Corporate Governance Committee

Chair: Joan Meyer
Members: Rosemary Davis *(Board Chair)*, John J. Ryan *(CEO)*, Marie-Andrée Mallette, Germain Simard, Russel Marcoux, Jack Christie, Deborah Whale

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to good governance practices. In addition, the Committee oversees the Board's policies with respect to ethics, conflict of interest and code of conduct for directors.

During this fiscal year, the Corporate Governance Committee carried out the following activities:

- recommended to the Board new memberships for all Board Committees;
- oversaw the orientation and training of the corporation's new Board members;
- with the assistance of outside legal counsel, completed a further round of Board evaluations;
- developed a new Board Charter and related Board Governance Guidelines.

Pension Committee

Board Representatives:
Maurice Kraut and Russel Marcoux

The FCC Pension Committee develops and oversees the investment policies of the corporation's pension plan. In addition to two Board members, the committee includes senior management representatives and elected employees.

During the past year, the committee oversaw the transfer of funds from the *Public Service Superannuation Act* (PSSA) pension plan to FCC's pension plan. The committee also developed a comprehensive set of governance guidelines, which were presented and approved by the full Board in December 2003.

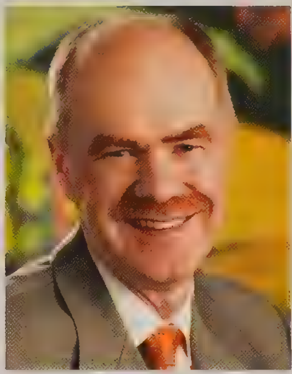
Profiles

Rosemary Davis

Chair since June 20, 2000
Director since December 19, 1995

With over 30 years of experience in the agriculture industry, Rosemary Davis is the owner/manager of Tri-Country Agromart Ltd. in Trenton, Ontario.

Ms. Davis is active on many local and provincial agriculture committees and associations. She is a director of Trenval Business Development Corporation, serving as the head of its Agriculture Committee. She is a director on the board of Loyalist College and is a member of the Fertilizer Institute of Ontario's Fertilizer Use Committee, the Ontario Federation of Agriculture and the Soil and Crop Federation in Northumberland, Prince Edward and Hastings counties. Her dedication to agriculture has been recognized by her peers with an honorary lifetime membership in the Ontario Institute of Agrologists. She resides in Cobourg, Ontario.



Jack Christie

Director since November 27, 2003

Jack Christie is a chartered accountant and the general manager and CEO at Northumberland Dairy Co-operative Ltd. in New Brunswick, where he has been for the past 16 years. Mr. Christie is also a director and past-president of the Atlantic Dairy Council, and the president of the New Brunswick Milk Dealers' Association. He has served as president of the New Brunswick Institute of Chartered Accountants and as a member of the Board of Governors of the Canadian Institute of Chartered Accountants.

Warren Ellis

Chair, Human Resources Committee
Director since April 4, 1995

Warren Ellis Produce in O'Leary, Prince Edward Island, is a mixed farming operation of potatoes, barley and wheat. Mr. Ellis is president and CEO of O'Leary Potato Packers Ltd., an operation that buys, packs and markets potatoes worldwide. In 1994, he was the Atlantic region honoree in Canada's Outstanding Young Farmers Program. In addition to continued support of the Terry Fox Foundation, Mr. Ellis has served his community as a board member of the Western School Board and the P.E.I. Lending Authority and as chair of the O'Leary Community Sports Centre and the Potato Blossom Festival.

Donna Graham

Director since September 26, 2000

Donna Graham is a managing partner of Graham Farms Vulcan Ltd., a 4,200-acre grain and oilseed operation near Vulcan, Alberta.

Ms. Graham has acted as an adviser on agricultural issues to various federal and provincial government departments and served on the boards of Alberta Women in Support of Agriculture and the Canadian Farm Women's Education Council. She has received the Alberta Government Recognition Award for her contribution to the development of recreation and culture in the province and a national 4-H award for her dedication to the 4-H movement. Ms. Graham was also chair of protocol for the Southern Alberta Summer Games.

Don Haliburton
Director since
November 4, 2003

Don Haliburton is a chartered accountant with over 20 years of experience in public practice and in senior management roles with businesses in a number of industries. He is the general manager of Exchange-a-Blade Ltd., a distributor and remanufacturer of power tool accessories. From 1994 to 2000, he was the vice-president, Finance, of International Aqua Foods Ltd., a TSE-listed aquaculture company with operations in Canada, the United States and Chile.

Maurice Kraut
Director since
June 28, 1999

A co-owner and operator of a cattle and grain farm enterprise, Maurice Kraut has his own firm, Agriculture Consulting, in Winnipeg, Manitoba. He has acted as a livestock marketing and policy analyst for Alberta Agriculture, Food and Rural Development and has taught policy and marketing at the University of Manitoba. Mr. Kraut was also a research director for the Canada Grains Council and an assistant deputy minister of agriculture in Manitoba.

Marie-Andrée Mallette
Chair, Audit Committee
Director since
June 16, 1995

Marie-Andrée Mallette participates in large-scale commercial crops and coloured beans operation in Quebec, with a focus on exporting. A lawyer in the agriculture domain for 18 years, Ms. Mallette has served as the regional director of the Quebec Business Women's Association and she founded the Beauharnois-Valleyfield chapter of the AFAQ (Association des femmes d'affaires du Québec). She shares her experience in exporting with new producers and has provided advisory services to exporting companies and agricultural operations seeking equity financing. She is active with the Châteauguay Chamber of Commerce, the Women for Access to Political and Economic Power, and the Canadian Bar Association.
Ms. Mallette contributes to her community by organizing educational programs at the primary level and by participating in fundraising projects for the Canadian Postal Museum and the Museum of Civilization in Hull, Quebec.

Russel Marcoux
Director since
December 10, 2002

Russel Marcoux is the CEO of the Yanke Group of Companies, a firm that specializes in transportation, employing over 700 staff and operating a fleet of more than 400 trucks.
Mr. Marcoux also owns and operates a Saskatchewan grain farm. He is actively involved in the Canadian Chamber of Commerce, St. Paul's Hospital in Saskatoon, Saskatchewan and the Children's Health Foundation.

Joan Meyer

Chair, Corporate Governance Committee
Director from January 11, 1995 to September 1996, re-appointed September 26, 2000

Joan Meyer is a co-owner and operator of a mixed farming enterprise near Swift Current, Saskatchewan. She also owns and operates Swift Administration and Management Services, a home-based business handling financial accounts and administration for small businesses and non-profit organizations. She serves as a director on a variety of boards at the national, provincial and local level, including Canadian Lutheran World Relief, The Multicultural Council of Saskatchewan, Swift Current Housing Authority and the Dr. Noble Irwin Healthcare Foundation.

John J. Ryan

President and CEO, FCC
Director since September 1, 1997

John Ryan brings more than 30 years of financial leadership experience to FCC. During his tenure, FCC has achieved ongoing growth in its portfolio, market share and customer loyalty. A strong proponent of community involvement, Mr. Ryan chairs the Hospitals of Regina Foundation and is a member of the Board of Directors for Regina's Adult Learning Centre. He serves on the Board of Directors for the 2005 Canada Summer Games and is a member of the Board of Trustees for the Canadian Athletic Foundation. In 1998 and 2001, he led the CEO Challenge for Habitat for Humanity. Mr. Ryan has worked extensively with the United Way of Regina, serving as co-chair in 1999, chair in 2000 and chair for the 2001 Leadership Campaign. In 2002, Mr. Ryan received the Queen's Golden Jubilee medal in recognition of his significant contributions to the people of Canada.

Germain Simard

Director since June 6, 1995

Mr. Simard co-owns, with his two sons, the Ferme de L'anse Enr., an operation that includes dairy production, field crops and agro-tourism with on-farm accommodations. From 1971-91, he was president of the Union des Producteurs Agricoles (UPA) of the Saguenay-Lac-Saint-Jean region. For eight years, Mr. Simard served as executive vice-president of the Fédération des Agricotours du Québec and, most recently, as regional president. He is a member of the agri-food co-operative Nutrinor, the Caisse populaire Desjardins and the Quebec Tourism Industry Corporation.

Deborah Whale

Director since November 4, 2003

Deborah Whale is vice-president and co-owner/operator of Clovermead Farms Inc., a commercial dairy, poultry and beef production business. She is the chair of the Poultry Industry Council of Canada and was co-chair of the Minister's Advisory Committee, Canadian Food Inspection Agency, chair of the Agriculture Research Institute of Ontario, and chair of the Veterinary Infectious Disease Organization.

Glossary of terms

Agribusiness
Includes businesses on the output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities; businesses on the input side of primary production that supply materials or services to producers; and farming operations with the complexity and scope to be classified as Agribusiness.

Alliances
Relationships between FCC and other agricultural or financial organizations designed to pool talents and offer expanded services.

Allowance for credit losses
Management's best estimate of credit losses in the loans receivable portfolio. Allowances are accounted for as deductions from loans receivable on the balance sheet.

Arrears
Arrears are defined as all amounts greater than $500 that are past due.

Asset/Liability Management Committee (ALCO)
A senior management committee responsible for the management of FCC's entire balance sheet to achieve desired risk-return objectives.

Basis point
One hundredth of one per cent, used when describing applicable interest rates or the yield of an investment.

Corporate governance
Structures, systems and processes for exercising stewardship and overseeing the direction and management of the corporation in carrying out its mandate.

Counterparty
The opposite side of a financial transaction, typically another financial institution.

Counterparty risk
The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating
A classification of credit risk based on investigation of a company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Derivative financial instrument
A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates, foreign exchange rates and equity prices. Types of derivative contracts include interest rate swaps, interest rate options, caps, floors, currency swaps, equity-linked swaps, forward contracts and futures.

Efficiency ratio
A measure of how well resources are used to generate income, calculated as administration expenses as a percentage of revenue (composed of net interest income, net lease income and other income).

Enterprise
Specific type of agricultural operation, such as dairy, cash crops, beef, etc.

Farm Finance
Farming that produces raw commodities, including crops, beef, hogs, poultry, sheep and dairy as well as fruits, vegetables and alternative livestock; also includes value-added agricultural operations of less complexity and scope than those categorized as Agribusiness.

Foreign exchange risk
The risk of financial loss due to adverse movements in foreign currencies.

Gap analysis
A tool to measure the maturing balances of assets and liabilities for interest rate risk-management purposes at specifically defined periods.

Hedge
A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans
Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured.

Integrated risk management (IRM)
The coordination of risk mitigation efforts to enhance the risk culture of the organization.

Interest and currency rate swaps
Contractual agreements for specified parties to exchange currencies and/or interest payments for a specified period of time based on notional principal amounts.

Interest expense
Expense to the corporation incurred on debt.

Interest income
Income earned on loans receivable, cash and investments.

Interest rate option
A right, but not an obligation, to pay or receive a specific interest rate on a notional amount of principal for a set interval.

Interest rate risk (IRR)
Exposure to a decline in net interest income and capital position as a result of changes in interest rates. Varieties of interest rate risk include prepayment risk, commitment risk and reinvestment risk.

Leverage
The relationship between total liabilities and the equity of a business.

Liquidity risk
The risk that required funds will not be readily available to meet corporate obligations in a timely manner.

Loan renewal rate
Percentage ratio of principal dollars renewed to principal dollars matured.

Market Value of Portfolio Equity (MVPE)
The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Net interest income (NII)
The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin
Net interest income expressed as a percentage of average total assets.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Provision for credit losses
The provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on Assets (ROA)
Net income expressed as a percentage of average total assets.

Return on Equity (ROE)
Net income expressed as a percentage of average equity.

Risk Scoring and Pricing System (RSPS)
A tool used to evaluate the type and potential impact of risks present in each loan to ensure FCC is adequately compensated for the risk in its portfolio.

Strategic Credit Risk Model (SCRM)
A tool to measure overall credit risk present in the portfolio, which reflects the impact of corporate priorities, credit culture, risk strategy and risk controls.

Value-added
Businesses on the input or output side of primary production that produce, transport, store, distribute, process or add value to agricultural commodities.

FCC Office locations

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, Leduc, Lethbridge, Medicine Hat, Olds, Red Deer, Stettler, St. Paul, Stony Plain, Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Moose Jaw, North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Weyburn, Wynyard, Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney, Melita, Morden, Neepawa, Portage la Prairie, Steinbach, Stonewall, Swan River, Virden

Ontario
Barrie, Campbellford, Chatham, Clinton, Embrun, Essex, Guelph, Kanata, Kingston, Lindsay, Listowel, London, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Drummondville, Gatineau, Granby, Joliette, Rivière-du-Loup, St-Hyacinthe, St-Jean-sur-Richelieu, St-Jérôme, Ste-Foy, Sherbrooke, Trois-Rivières, Valleyfield, Victoriaville

New Brunswick
Grand Falls, Moncton, St. George, Sussex, Woodstock

Newfoundland and Labrador
St. John's

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown, Summerside

Government and Industry Relations
Room 841, Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
Telephone: (613) 993-9897
Fax: (613) 993-9919

Corporate Office
1800 Hamilton Street, P.O. Box 4320
Regina, Saskatchewan S4P 4L3
Telephone: (306) 780-8100
Fax: (306) 780-5456

www.fcc-fac.ca

Customer toll-free number:
1-888-332-3301

Cette publication est aussi offerte en français.

Photography by Greg Huszar

2003-04 **Annual Report Evaluation**

What do you like about our annual report? What can we improve upon? Please take a few minutes to complete and return the following survey – your feedback is important to us!

Rating	1 = Poor • 5 = Excellent				
Information is clear	1	2	3	4	5
Information is easy to understand	1	2	3	4	5
Quality of content:					
• Commitment to agriculture/rural Canada	1	2	3	4	5
• Focus on our customers	1	2	3	4	5
• Products and services	1	2	3	4	5
• Role in the community	1	2	3	4	5
• Strategic direction	1	2	3	4	5
• Corporate performance	1	2	3	4	5
• Governance	1	2	3	4	5
Overall rating of annual report	1	2	3	4	5

Did you learn something new about FCC by reading our annual report?
❑ Yes ❑ No

Do you consider FCC to be a progressive, leading-edge financial institution?
❑ Yes ❑ No

Your comments and suggestions regarding our annual report:

Please indicate the description that best describes you/your organization (check all that apply):

❑ FCC customer
❑ FCC alliance partner
❑ Agricultural stakeholder association
❑ Agricultural company
❑ Financial stakeholder association
❑ Financial company
❑ Investor
❑ Federal government
❑ Provincial government
❑ Other

Thank you for your time!

fcc Farm Credit Canada

Agriculture. It's all we do.

1-888-332-3301

www.fcc-fac.ca

Canadä